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FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1988

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

H.R. 3186

AN ACT MAKING APPROPRIATIONS FOR FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1988, AND FOR OTHER PURPOSES

PART 3 (Pages 1-159)

TITLE III—MILITARY ASSISTANCE
DEFENSE SECURITY ASSISTANCE AGENCY
DEPARTMENT OF STATE

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FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1988

TUESDAY, JULY 14, 1987

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:35 a.m., in room SD–138, the Dirksen Senate Office Building, Hon. Barbara A. Mikulski presiding.

Present: Senators Mikulski, DeConcini, Lautenberg, Harkin, and Nickles.

DEPARTMENT OF STATE

SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

STATEMENT OF THE HONORABLE EDWARD J. DERWINSKI, UNDER SECRETARY FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY, DEPARTMENT OF STATE

ACCOMPANIED BY:

DEFENSE AGENCIES

DEFENSE SECURITY ASSISTANCE AGENCY

LT. GENERAL PHILIP GAST, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

OPENING REMARKS OF SENATOR MIKULSKI

Senator MIKULSKI. The subcommittee will please come to order.

This morning I will be chairing the subcommittee. Our distinguished Chair, Mr. Inouye, is absorbed in the Contragate hearings this morning. But just as the President has urged that nothing be a distraction from the business of Government, nothing is going to slow down this subcommittee.

We wanted to proceed with our hearings and welcome our new Undersecretary and his able staff. This subcommittee will continue its examination of the President's fiscal year 1988 request for funding of foreign assistance and related programs.

INTRODUCTION OF WITNESSES

With us today to justify the request for the security assistance programs is the Undersecretary of State for Security Assistance, Science and Technology, my former colleague in the House, Mr. Edward J. Derwinski. Accompanying Mr. Derwinski is the Director of the Defense Security Assistance Agency, Lt. Gen. Philip Gast.

Mr. Derwinski and General Gast are the two most Senior officials of our Government having direct responsibility for the security assistance programs, Military Assistance, Foreign Military Credit Sales, International Military Education and Training, and Peacekeeping Operations. With two so highly qualified witnesses before us, we should have no difficulty in obtaining the answers we need to fully understand these programs.

Mr. Derwinski, General Gast, on behalf of Chairman Inouye and the subcommittee, I am pleased to welcome you.

Gentlemen, your prepared statements have been received and will be placed in the record.

Before I proceed, I wonder if the Senator from Arizona wishes to make an opening statement.

Senator DECONCINI. Madam Chairman, thank you. I have no opening statement. Thank you very much.

PREPARED STATEMENT OF SENATOR D'AMATO

Senator MIKULSKI. I have an opening statement from Senator D'Amato that I would like to insert in the record at this time.

[The statement of Senator D'Amato follows:]

PREPARED STATEMENT OF HON. ALFONSE D'AMATO

U.S. SENATOR FROM NEW YORK

Mr. Chairman, our overall military assistance program, including the Military Assistance Program, Foreign Military Credit Sales, the Peacekeeping Operations, the International Military Education and Training Program, the Guarantee Reserve Fund, and the Special Defense Acquisition Fund, plays an essential role in our foreign policy. The Administration has requested $5.8 billion for these purposes for fiscal year 1988.

The Military Assistance Program aids our allies by financing the purchase of U.S. defense goods. These nations often have serious defense needs, but limited resources to expend for defense. In addition, it enhances our foreign policy by aiding allies who are combating aggression, such as El Salvador, promoting regional stability, such as Zaire, or providing cooperative security, such as Portugal. The Administration has requested $1.32 billion for this particular program, an increase from $900 million allowed for this fiscal year.

The Foreign Military Sales Financing Program is another key foreign policy tool. This program allows friendly nations with fiscal difficulties to purchase U.S. defense goods using U.S. loans. The FMS Program enables these nations to share the burden of U.S. security. The Administration has requested $4.4 billion for this program.

In addition to these programs, the Peacekeeping Operations, the International Military Education and Training Program, and the Special Defense Acquisition Fund also assist our allies in meeting specific defense needs.

I must state, however, that there are, in my view, serious problems with certain specific areas of our military aid programs. The Undersecretary emphasizes in his testimony the importance of our military assistance for regional security. In certain cases, however, regional security seems to be sacrificed for supposed, short-term national interests. The large requested increase for military aid to Turkey may help secure our base rights, but it negatively effects the regional security of our Southern Flank of NATO. Although the modernization of Turkey's armed forces on the Soviet border and the Bosporos strait is a worthy goal, it should not further Turkey's territorial designs on

Cyprus and Greece's Aegean Islands. The United States can and should do more to diffuse the conflict between these important NATO allies. Until we do, the coherence of NATO's Southern Flank is at risk.

Nor is the long-term national interest of the United States served by arms sales to certain Arab nations. The Iranian threat is real and should be checked, but not in a way that will alter the military balance between the Arab nations and Israel. We must take better care to ensure that arms sales to Saudi Arabia or other nations still technically at war with Israel will not, at the very least, alter the fragile peace that currently exists.

The military assistance programs have proven that they can be effective. While providing recipient nations with much needed assistance, they bolster U.S. interests and foreign policy objectives. The Administration and the State Department for the most part have done a good job of using these programs wisely. I look forward to working with you, Mr. Derwinski and General Gast, on funding levels for these important programs as the budget process moves forward.

Thank you, Mr. Chairman.

Senator MIKULSKI. Thank you. Mr. Derwinski, General Gast, if you wish, you may offer a summary of your statement at this point and then we will proceed with the questioning. We look forward to the conversation.

As is customary, we will limit our question period to 10 minutes for each member. I would ask that you make your answers brief and to the point.

Mr. Derwinski, I understand that you must leave at noon for other engagements. We will try to accommodate your request. Why don't you begin, with General Gast to follow your summary.

REMARKS BY UNDER SECRETARY DERWINSKI

Mr. DERWINSKI. Thank you. I am still somewhat subject to the training I received in the House, so I will follow the 5-minute rule and condense my summary to 5 minutes.

The major point I would like to make is one that you know well. We have taken a fairly steady budget beating in the last 2 years.

You will hear subsequently from Secretary Shultz, who will make the point that the administration and the State Department have repeatedly emphasized that the drastically reduced resources that we have in foreign policy are jeopardizing our national interests.

We realize, of course, the complications imposed on Congress by budget reform and the continuing struggle Congress has overall. We do feel that our percentage of the budget, as small as it is, is absolutely vital to effective implementation of foreign policy.

Generally, we make a point—as my prepared statement does—of the major countries in which we engage. Basically one of the few areas of bipartisanship these days, support for Israel and Egypt, is shared by the Legislative and Executive branches. The support for the base rights countries, Greece, Turkey, Spain, Portugal, the Philippines, I think is something that we share.

The point I would like to make, in part to show the effects of restrictions, including earmarking, is that as we get into smaller countries, some in a way just as delicate and vital as the major countries that we note, we realize that this is where the budget pinch has left us without real flexibility.

CHAD

For example, in the last year one of the more interesting stories has been the success of the government of Chad in driving Colonel Quaddafi's forces out of the northern part of their country. Yet, we have to go through a number of budget gyrations to help get the military supplies needed for that kind of operation. That is one where we had the understanding and support of the Legislative branch. And Colonel Quaddafi has been a special complication for us.

Morocco, Somalia, Kenya—countries where we have very vital base access or base rights—suffer in the budget cuts of necessity once our funds are reduced and then earmarking is imposed.

NATO ALLIES

Then, if I may also note our special emphasis on Portugal, Spain, Greece, and Turkey. The southern countries of NATO happen to be the four countries in NATO where their own economic development has lagged behind some of their allies.

Therefore, we have had a special investment there, which we think is in NATO's interest, our interest, and which we think is a very practical effort to bolster up those very loyal allies in the southern flank of NATO.

THAILAND

On Thailand, one of my earlier assignments, Madam Chairman, was to handle the refugee program. The Thais have a very, very special problem with the refugees that poured in from Vietnam, Cambodia, and Laos. Therefore, our support for the projects and the undertakings of the government of Thailand, I think, merit support.

There are other examples, but I make these points only to show that as the budget is cut, the earmarkings are proportionately increased, leaving us without any real management or policy flexibility.

FLEXIBILITY IN ADMINISTRATION FOREIGN POLICY MATTERS

If I may make one personal reference to my service in the House of Representatives. About 10 years ago, at the start of the Carter Administration, in the markup before the House Foreign Affairs Committee, I offered an amendment to provide the President with a broad contingency fund.

I thought at the start of a new administration, the honeymoon period, it would be a good idea to give the new administration some additional flexibility in the security assistance and entire foreign aid area.

The problem I ran into, and I realized it immediately, was that we, in Congress, had become accustomed to earmarking and we think now, in the Executive branch, over-managing foreign policy.

My effort to be especially generous and helpful to a new Democratic Administration fell on deaf ears. Yet, I think in principle, one would argue that you do have to give any administration flexibility, subject to their effectiveness and propriety in reporting to Congress. You have to give them the flexibility to carry out policy.

BUDGETARY EFFECT ON FOREIGN POLICY MATTERS

One last point I would make, Madam Chairman, is that I appreciate the fact that the budget situation is something that nobody really controls.

I appreciate the fact that all of our committees we work with—the authorizing committees, budget committees and, of course, the appropriating committees—all have their entanglements caused by the budget pressure. But we would certainly hope that the committees interested in the 150 account, and the broad foreign policy application, and the need to conduct an effective foreign policy abroad, would understand that we have taken far deeper cuts than any other area, and that we do, in fact, now suffer from a very tight budgetary situation.

There are developments that occur over which we have no control. Specifically, in the Philippines, despite Mrs. Aquino's best efforts, the insurgents continue to be a major problem to her country. Yet, more than anything else we would like her to succeed. Ultimately, this might require budgetary support.

That is where we need the flexibility. That is where we have to have the understanding and cooperation of Congress. I also realize we seem to be in an era of confrontations. I still am optimistic enough and innocent enough to think that with a little extra work, we could restore the spirit of bipartisanship in foreign policy.

I thank you and Senator DeConcini for the time you are giving me this morning.

[The prepared statement of Mr. Derwinski follows:]

PREPARED STATEMENT OF HON. EDWARD J. DERWINSKY

UNDERSECRETARY FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

DEPARTMENT OF STATE

I AM DELIGHTED TO COME BEFORE YOU THIS MORNING TO TESTIFY ON THE ADMINISTRATION'S SECURITY ASSISTANCE NEEDS. THIS IS MY FIRST APPEARANCE BEFORE THIS COMMITTEE IN MY CAPACITY AS UNDER SECRETARY FOR SECURITY ASSISTANCE, SCIENCE, AND TECHNOLOGY. I AM ALSO REMINDED THAT 1987 IS THE 40TH ANNIVERSARY OF THE MARSHALL PLAN, THE PROGENITOR OF TODAY'S SECURITY AND DEVELOPMENT ASSISTANCE PROGRAMS. THE APPROPRIATION OF FUNDS BY CONGRESS IN SUPPORT OF U.S. NATIONAL INTERESTS 40 YEARS AGO HELPED TO LIFT WESTERN EUROPE FROM THE RUBBLE OF WORLD WAR II. SO TODAY, WE URGE YOUR SUPPORT FOR U.S. NATIONAL INTERESTS -- NOT ONLY IN EUROPE, BUT IN OTHER KEY REGIONS OF THE WORLD ALSO.

TODAY, I WOULD LIKE TO EXPAND ON THE THEME THAT SECRETARY SHULTZ AND OTHERS IN THE ADMINISTRATION HAVE RAISED REPEATEDLY IN THIS BUDGET YEAR. IF WE DRASTICALLY REDUCE THE RESOURCES AVAILABLE TO CARRY OUT OUR FOREIGN POLICY, WE ARE JEOPARDIZING OUR NATIONAL INTERESTS. SPECIFICALLY, I WOULD LIKE TO TALK TO YOU ABOUT HOW DRACONIAN CUTS IN THE FOREIGN AFFAIRS BUDGET ARE DOING GREAT DAMAGE TO THE VITAL INTERESTS OF THIS COUNTRY.

AS A FORMER MEMBER OF CONGRESS, I KNOW VERY WELL THAT THESE PROGRAMS HAVE FEW "NATURAL" CONSTITUENTS. MANY OF OUR CITIZENS VIEW FOREIGN ASSISTANCE AS A "GIVE-AWAY" TO UNDESERVING FOREIGNERS. THIS IS CLEARLY NOT THE CASE. ON THE CONTRARY, WE ARE CONSIDERING HERE THE FOREIGN POLICY BUDGET OF THE UNITED STATES. THIS BUDGET INCLUDES SECURITY AND

DEVELOPMENT ASSISTANCE PROGRAMS WHICH ARE PRINCIPAL INSTRUMENTS OF POLICY. IT ALSO PAYS FOR THE STATE DEPARTMENT PERSONNEL WHO EXECUTE THAT POLICY, AND MORE. ALTOGETHER OUR FOREIGN POLICY PROGRAMS AND PEOPLE COST LESS THAN TWO PERCENT OF THE TOTAL FEDERAL BUDGET. TAKING THIS THOUGHT ONE STEP FURTHER TO MY SPECIFIC INTEREST, SECURITY ASSISTANCE CONSTITUTES LESS THAN HALF OF OUR FOREIGN POLICY BUDGET -- NOT EVEN ONE PERCENT OF TOTAL FEDERAL SPENDING. SOME OF THAT ASSISTANCE IS IN THE FORM OF LOANS WHICH ARE REPAID. MOST IS ALSO SPENT ON U.S. GOODS AND SERVICES, THUS PROVIDING JOBS IN THE UNITED STATES AND INCREASING IN TURN FEDERAL, STATE AND LOCAL TAX RECEIPTS. THESE ARE FACTS THAT WE RARELY TAKE INTO CONSIDERATION.

WHY DO WE DEVOTE PUBLIC FUNDS TO SECURITY ASSISTANCE? EVER SINCE WORLD WAR II, EVERY PRESIDENT -- BOTH DEMOCRAT AND REPUBLICAN -- HAS RECOGNIZED THE PIVOTAL ROLE THAT SECURITY ASSISTANCE PLAYS IN OUR FOREIGN POLICY. WHY WOULD THESE MEN CONTINUE TO ASK CONGRESS TO FUND A PROGRAM WHICH ENJOYS SO LITTLE POPULAR SUPPORT? AND WHY DID STRONG BIPARTISAN COALITIONS DEVELOP IN CONGRESS TO SUPPORT THESE PROGRAMS? THE ANSWER IS THAT THESE PRESIDENTS AND CONGRESS CONCLUDED THAT THESE PROGRAMS ARE ESSENTIAL TO OUR NATIONAL WELL BEING, IF NOT -- ON OCCASION -- TO OUR SURVIVAL.

WHY DO WE SPEND MONEY ON SECURITY ASSISTANCE INSTEAD OF ON ADDITIONAL DEFENSE ALLOCATIONS? THE ANSWER IS THAT WE DO NOT -- INDEED CANNOT AND WOULD NOT WANT TO -- MAINTAIN OUR OWN ARMED FORCES IN MANY OF THE WORLD'S TROUBLE SPOTS. FAR FROM BEING GIVE-AWAYS, SECURITY ASSISTANCE PROGRAMS MAKE CONTRIBUTIONS TO OUR SECURITY THAT WE COULD ACHIEVE ONLY AT FAR GREATER EXPENSE, IF AT ALL, THROUGH U.S. DEFENSE SPENDING

-- AND THEN ONLY AT THE GREAT RISK OF ENGAGING U.S. FORCES IN CONFLICT ABROAD.

- OUR PROGRAMS BOLSTER THE NATO ALLIANCE WHICH IS JUST AS VITAL TO THE DEFENSE OF THIS COUNTRY AND THAT OF OUR PARTNERS AS IT WAS WHEN CREATED IN 1949. OUR MILITARY ASSISTANCE TO THE SOUTHERN FLANK COUNTRIES AND ARMS COOPERATION WITH OUR OTHER ALLIES CONTRIBUTE VERY SUBSTANTIALLY TO THE OVERALL MILITARY CAPABILITIES OF THE ALLIANCE.

- IN THE PHILIPPINES, THE CARIBBEAN, AND IN LATIN AMERICA, DEMOCRATIC SYSTEMS HAVE REPLACED ONE AUTHORITARIAN GOVERNMENT AFTER ANOTHER. OUR MILITARY AND ECONOMIC ASSISTANCE HAS ENCOURAGED AND SUPPORTED THESE TRANSITIONS, AND IN SOME INSTANCES IT CONTINUES TO PLAY A CRITICAL ROLE IN SUSTAINING THESE FRAGILE DEMOCRACIES.

- IN THE MIDDLE EAST, WE HELP SUSTAIN THE EGYPTIAN AND ISRAELI DEFENSE POSTURES, AND THEREBY SUPPORT THE CAMP DAVID AGREEMENTS WHICH GREATLY REDUCE THE RISK OF MAJOR ARAB-ISRAELI CONFLICT.

ASIDE FROM FURTHERING OUR NATIONAL SECURITY AND FOREIGN POLICY, WHAT DOES SECURITY ASSISTANCE DO FOR OUR OWN PROSPERITY? SECRETARY SHULTZ MADE SOME IMPORTANT POINTS ON THIS SUBJECT IN HIS TESTIMONY THIS YEAR BEFORE OTHER CONGRESSIONAL COMMITTEES. LET ME REVIEW AND AMPLIFY SOME OF THEM.

- ABOUT 40 PERCENT OF OUR EXPORTS GO TO DEVELOPING

COUNTRIES. MANY OF THESE NATIONS RELY HEAVILY ON OUR SECURITY ASSISTANCE TO SUSTAIN GOVERNMENTS FRIENDLY TO THE WEST AND TO FREE TRADE.

- EACH $1 BILLION OF U.S. EXPORTS SUPPORTS ROUGHLY 26,000 AMERICAN JOBS.
- ONE OUT OF FIVE MANUFACTURING JOBS IS RELATED TO U.S. EXPORTS TO THIRD WORLD COUNTRIES.

THUS, CONTRIBUTING TO STRONGER, SAFER WORLD MARKETS FOR GROWING U.S. EXPORTS IS CLEARLY ONE OF THE DIRECT AND TANGIBLE BENEFITS THE UNITED STATES RECEIVES FROM THE SECURITY ASSISTANCE PROGRAM.

EQUALLY TRUE IS THE FACT THAT U.S. SECURITY ASSISTANCE PAYS FOR PRODUCTS, TRAINING, AND SERVICES PRODUCED IN THE UNITED STATES BY AMERICAN COMPANIES AND WORKERS. INDEED, 80 TO 90 CENTS OF EVERY DOLLAR WE SPEND ON SECURITY ASSISTANCE IS SPENT IN THE UNITED STATES.

BUT THESE ARE SIDE BENEFITS OF OUR FOREIGN POLICY SPENDING. WE WOULD STILL SEEK YOUR SUPPORT FOR THESE PROGRAMS EVEN WITHOUT THEM.

THE SECOND MAJOR POINT I WANT TO MAKE IS THAT THESE PROGRAMS HAVE BEEN CUT BACK TOO FAR.

ANY DISPASSIONATE OBSERVER WOULD UNDERSTAND THAT WE ARE NOT GOING TO DENT FEDERAL DEFICITS BY MAKING BIG CUTS IN PROGRAMS WHICH MAKE UP LESS THAN ONE PERCENT OF THE FEDERAL BUDGET. THEREFORE, THE CUTS THE SECURITY ASSISTANCE PROGRAM

HAS TAKEN OVER THE PAST TWO YEARS ARE ONLY SYMBOLIC AT HOME, BUT PORTEND DISASTER FOR U.S. INTERESTS ABROAD:

- IN FY 1986 CONGRESS REDUCED THE PRESIDENT'S REQUEST BY TEN PERCENT. ADDING THE 4.3 PERCENT "SEQUESTER" MANDATED BY THE GRAMM-RUDMAN-HOLLINGS ACT, FY 1986 FUNDING WAS REDUCED 14.3 PERCENT BELOW THE REQUEST.

- IN FY 1987 FOREIGN ASSISTANCE APPROPRIATIONS WERE 17 PERCENT BELOW THE PRESIDENT'S REQUEST.

- IN FY 1987 MILITARY ASSISTANCE WAS CUT ANOTHER 10 PERCENT, AND ECONOMIC SUPPORT FUNDS 5.4 PERCENT BELOW THE FY 1986 ACTUAL LEVELS.

- CONGRESSIONAL EARMARKING OF ISRAEL AND EGYPT AT THE FULL REQUEST LEVEL AND ADDITIONAL EARMARKING OF GREECE, PAKISTAN, AND TURKEY LEFT ONLY 14 PERCENT OF THE MILITARY ASSISTANCE PROGRAM FUNDS AVAILABLE FOR 30 OTHER COUNTRIES IN FY 1987. THIS FIGURE IS DOWN FROM 23 PERCENT IN FY 1986.

- THESE REDUCTIONS FELL HEAVILY ON BASE RIGHTS COUNTRIES, ESPECIALLY THE SOUTHERN FLANK OF NATO. MOREOVER, THEY CAME AT A TIME WHEN WE WERE RENEGOTIATING SEVERAL OF THESE AGREEMENTS.

WE SHOULD NOT DELUDE OURSELVES. SUCH CUTS ADVERSELY AFFECT U.S. INTERESTS. FOR EXAMPLE, WITH RESPECT TO SOME OF THE BASE RIGHTS COUNTRY PROGRAMS:

- THE REDUCTIONS FOR TURKEY EFFECTIVELY HALTED THE MODERNIZATION OF TURKISH FORCES WELL SHORT OF NATO

FORCE STRUCTURE GOALS. THEY ARE FORCING A SLOWDOWN OR STRETCHOUT OF MODERNIZATION PROGRAMS BOTH COUNTRIES AGREED ON IN PRIOR YEARS.

- PORTUGAL, WHICH PROVIDES US USE OF THE VITAL LAJES AIR BASE IN THE AZORES, WAS CUT $56 MILLION, AND THE SHORT-FALL HAS BEGUN TO CAUSE STRAINS IN OUR SECURITY RELATIONSHIP AND TO GENERATE PRESSURES FOR A REVIEW OF OUR BASING ARRANGEMENTS.

- WE WERE ABLE TO ALLOCATE ONLY $50 MILLION IN MILITARY ASSISTANCE PROGRAM (MAP) FUNDS FOR THE PHILIPPINES, LITTLE MORE THAN HALF THE TOTAL FY 1986 ALLOCATIONS AND SUBSTANTIALLY LESS THAN THE AMOUNTS WE THINK THE PHILIPPINES REALLY NEEDS. THE CONGRESS HAS, FORTUNATELY FOR U.S. INTERESTS, RECOGNIZED THIS NEED AND AGREED TO AN ADDITIONAL $50 MILLION IN MAP IN THE RECENTLY PASSED SUPPLEMENTAL. HOWEVER, WITH THE BREAKDOWN OF THE CEASE-FIRE WITH THE INSURGENTS, GREATER SUPPORT OF PRESIDENT AQUINO'S GOVERNMENT HAS BECOME AN EVEN MORE URGENT PRIORITY.

IN SHORT, SUCH CUTS IN ECONOMIC AND MILITARY ASSISTANCE ARE UNDERMINING THE FORWARD DEPLOYMENT STRATEGY THAT HAS SERVED US AND OUR ALLIES SO WELL FOR NEARLY 40 YEARS.

ELSEWHERE THE FY 1987 CUTS HAVE HAD A PROFOUND EFFECT ON OUR NATIONAL INTERESTS.

- JORDAN, A KEY PLAYER IN THE MIDDLE EAST PEACE PROCESS, SAW ITS SECURITY ASSISTANCE FUNDS REDUCED BY 50 PERCENT, MAKING IT HARDER FOR JORDAN TO CONSIDER THE

KINDS OF RISKS NECESSARY TO BROADEN THE MIDDLE EAST PEACE PROCESS. JORDAN CAN NO LONGER BUY SUFFICIENT SPARE PARTS, AMMUNITION, OR UPGRADE KITS FOR ITS ARMED FORCES.

- MOROCCO, WHICH PROVIDES US WITH VERY IMPORTANT ACCESS RIGHTS AND HAS VERY SUBSTANTIAL MILITARY NEEDS, WAS CUT MORE THAN 13 PERCENT.

- SOMALIA, AMONG THE POOREST OF COUNTRIES WITH WHICH WE HAVE SECURITY ASSISTANCE PROGRAMS, AND A COUNTRY IMPORTANT TO OUR STRATEGY IN SOUTHWEST ASIA, RECEIVED AN ALLOCATION THAT WAS 57 PERCENT BELOW THE FY 1986 LEVEL.

- KENYA, ANOTHER IMPORTANT ACCESS COUNTRY, WILL RECEIVE 55 PERCENT LESS THIS YEAR THAN LAST.

- OMAN, WHOSE COOPERATION IS ALSO IMPORTANT TO OUR SOUTHWEST ASIA STRATEGY, WILL RECEIVE NO MILITARY ASSISTANCE FUNDS IN FY 1987.

- TUNISIA, WHICH FACES AN AGGRESSIVE AND DANGEROUS LIBYA OVER ITS EASTERN FRONTIER, SAW ITS PROGRAM FALL BY 50 PERCENT.

BECAUSE OF THESE CUTS IN U.S. ASSISTANCE, THE COUNTRIES AFFECTED ARE LESS ABLE TO DETER AGGRESSION. INDEED, THE CUTS COULD HAVE THE UNINTENDED EFFECT OF MAKING AGGRESSION MORE LIKELY.

IN A NUMBER OF COUNTRIES WE ARE DEVELOPING TRANSIT, PREPOSITIONING, OR BASING ARRANGEMENTS WHICH EXTEND OR ENHANCE OUR OWN MILITARY POSTURE. SUCH ARRANGEMENTS ARE FREQUENTLY CONTROVERSIAL IN THOSE COUNTRIES OR REGIONS AND EXTREMELY HARD FOR HOST GOVERNMENTS TO DEFEND IF THERE IS A DECLINING OR DISAPPEARING TANGIBLE U.S. CONTRIBUTION TO THE COMMON DEFENSE.

SECURITY ASSISTANCE ONLY MAKES SENSE IF THESE PROGRAMS CLEARLY SUPPORT THE FUNDAMENTAL INTERESTS AND BROAD FOREIGN POLICY GOALS OF THE UNITED STATES. WHAT ARE THE BASIC INTERESTS AND GOALS?

- TO PRESERVE THE INDEPENDENCE, FREE INSTITUTIONS, AND TERRITORIAL INTEGRITY OF THE UNITED STATES.
- TO PROMOTE THE ECONOMIC PROSPERITY OF THE UNITED STATES.
- TO WORK TOWARD AN INTERNATIONAL ENVIRONMENT IN WHICH BASIC HUMAN FREEDOMS CAN SURVIVE AND EXPAND. SUCH AN ENVIRONMENT WOULD ALLOW OTHER COUNTRIES TO PURSUE THEIR OWN POLITICAL AND ECONOMIC PROSPERITY IN ACCORD WITH THEIR OWN ASPIRATIONS AND CAPABILITIES.

MORE SPECIFICALLY, OUR SECURITY ASSISTANCE PROGRAMS SUPPORT A NUMBER OF OTHER CONCRETE FOREIGN POLICY OBJECTIVES.

A JUST AND COMPREHENSIVE PEACE IN THE MIDDLE EAST REMAINS A PRINCIPAL OBJECTIVE OF U.S. FOREIGN POLICY. SUCH A PEACE, IN OUR VIEW, WOULD HAVE TO RECOGNIZE THE LEGITIMACY AND ALLOW FOR THE SECURITY OF ISRAEL. IT WOULD HAVE TO TAKE INTO

ACCOUNT THE LEGITIMATE INTERESTS OF THE PALESTINIAN PEOPLE AND BE FULLY NEGOTIATED AMONG ALL THE PARTIES INVOLVED, INCLUDING THE PALESTINIANS THEMSELVES.

THESE OBJECTIVES, AND THE SECURITY ASSISTANCE PROGRAMS THAT SUPPORT THEM, ARE IMPORTANT BECAUSE OF THE MIDDLE EAST'S LOCATION ASTRIDE THE SEA AND AIR LANES BETWEEN EUROPE AND ASIA. THEY ARE IMPORTANT BECAUSE 70 PERCENT OF THE WORLD'S PROVEN OIL RESERVES LIE IN THE MIDDLE EAST. AND THEY ARE IMPORTANT BECAUSE OF OUR COMMITMENTS MADE TO ISRAEL OVER THE YEARS BY EVERY ADMINISTRATION SINCE THAT OF PRESIDENT TRUMAN.

IN SUPPORT OF THESE OBJECTIVES, THE LARGEST PART OF OUR SECURITY ASSISTANCE PROGRAMS, SOME 55 PERCENT, GOES TO EGYPT AND ISRAEL. WITH THIS LARGE COMMITMENT OF RESOURCES WE ENHANCE THE SELF-DEFENSE CAPABILITIES OF THE TWO COUNTRIES WHICH HAVE TAKEN THE MAJOR STEPS TOWARD PEACE IN THE MIDDLE EAST. AT THE SAME TIME WE STRIVE TO LAY THE GROUNDWORK FOR BROADER POLITICAL AND SECURITY COOPERATION WITH JORDAN AND OTHER MODERATE ARAB POWERS.

ANOTHER OF OUR OBJECTIVES IS COALITION DEFENSE. FOR MANY YEARS THE COMPLEMENTARY IDEAS OF COALITION DEFENSE AND FORWARD DEPLOYMENT HAVE BEEN THE TWO KEYSTONES OF U.S. DEFENSE STRATEGY. COALITION DEFENSE REQUIRES THAT THE UNITED STATES HAVE WILLING ALLIES. OUR ALLIES ARE PARTNERS, NOT DEPENDENCIES: FOR OUR ALLIANCES TO WORK EFFECTIVELY, WE HAVE TO WORK WITH OUR ALLIES AND TAKE INTO ACCOUNT THEIR NEEDS AND INTERESTS. MANY OF OUR ALLIES, ESPECIALLY THOSE ALONG NATO'S SOUTHERN FLANK, DO NOT YET HAVE THE ECONOMIC STRENGTH TO EQUIP THEIR ARMED FORCES AT MUTUALLY AGREED LEVELS. OUR SECURITY

ASSISTANCE REPRESENTS AN EFFORT TO PROVIDE THE ADDITIONAL RESOURCES THESE COUNTRIES NEED TO PROCEED WITH THE MODERNIZATION OF THEIR FORCES. THE MERE EXISTENCE OF THE WELL-TRAINED AND EVER BETTER EQUIPPED FORCES OF PORTUGAL, SPAIN, GREECE, AND TURKEY ARE A POWERFUL DETERRENT IN THE MEDITERRANENAN REGION. AND THESE COUNTRIES ALLOW US ACCESS TO BASES AND OTHER FACILITIES ON WHICH OUR FORWARD DEPLOYMENT STRATEGY -- WHICH IS AN INTEGRAL PART OF NATO MILITARY STRATEGY -- DEPENDS.

A NUMBER OF FRIENDLY COUNTRIES OUTSIDE OF NATO ALSO PROVIDE US WITH BASING AND OTHER FACILITIES. THE PHILIPPINES, FOR EXAMPLE, ALLOWS US THE USE OF THE BASES AT SUBIC BAY AND CLARK FIELD. THE LOSS OF THE SUBIC AND CLARK BASES WOULD BE A GEOPOLITICAL DISASTER FOR THE UNITED STATES AND, AS IMPORTANTLY, FOR OUR FRIENDS IN THE PACIFIC. WE WOULD HAVE TO PAY VAST AMOUNTS TO REPLACE THOSE BASES. OUR ABILITY TO SUPPORT NAVAL FORCES IN THE INDIAN OCEAN WOULD BE CLEARLY DIMINISHED. THEREFORE, THE COMMUNIST INSURGENCY WHICH THREATENS THE PHILIPPINE GOVERNMENT IS OF GREAT CONCERN FOR THIS COUNTRY. THE INSURGENCY IS A THREAT TO VITAL STRATEGIC INTERESTS OF THE UNITED STATES AND TO SECURITY IN THE PACIFIC -- WHICH, AS A REGION, IS OUR LARGEST TRADING PARTNER. THEREFORE, WE MUST PROVIDE THE PHILIPPINES WITH ADEQUATE LEVELS OF MILITARY AND ECONOMIC ASSISTANCE. WE FACE UNIQUE CHALLENGES AND OPPORTUNITIES TO OUR INTERESTS IN THIS COUNTRY OF ENORMOUS STRATEGIC IMPORTANCE.

SIMILARLY IN THE HORN OF AFRICA, KENYA AND SOMALIA PROVIDE US WITH ACCESS RIGHTS WHICH ARE ESSENTIAL PARTS OF OUR SOUTHWEST ASIA STRATEGY. THESE COUNTRIES LOOK TO US FOR

CONTINUED SUPPORT--SUPPORT WHICH HAS BEEN CUT SUBSTANTIALLY OVER THE PAST TWO YEARS.

ALL IN ALL, MUCH OF OUR COALITION DEFENSE AND FORWARD DEPLOYMENT STRATEGIES ARE IN DANGER IF WE FAIL TO PROVIDE ADEQUATE LEVELS OF SECURITY ASSISTANCE.

ANOTHER OF OUR OBJECTIVES IS TO DETER AGGRESSION. SOME FRIENDLY COUNTRIES ARE FACED WITH THE VERY REAL NEED TO DETER AGGRESSION. THEREFORE, ANOTHER OF OUR FOREIGN POLICY OBJECTIVES MUST BE TO DETER OR -- IF NECESSARY -- HELP TURN BACK SUCH AGGRESSION WHILE PROMOTING ECONOMIC AND POLITICAL PROGRESS. CENTRAL AMERICA, WHICH HAD ONE DEMOCRACY AND FOUR DICTATORSHIPS IN 1980 AND NOW, IN 1987, BOASTS FOUR DEMOCRACIES AND ONE DICTATORSHIP, IS A CASE IN POINT. OUR ASSISTANCE, THE VAST MAJORITY OF WHICH REMAINS ECONOMIC RATHER THAN MILITARY, PROVIDES THE CRITICAL RESOURCE MARGIN WHICH IS ALLOWING THIS REMARKABLE TRANSITION TO TAKE PLACE. LET ME UNDERLINE, HOWEVER, THE IMPORTANCE OF MILITARY ASSISTANCE IN THIS PROCESS. ALL THE POLITICAL REFORMS, ECONOMIC RESTRUCTURING, AND RESOURCE ASSISTANCE IMAGINABLE WILL COME TO NAUGHT IF THERE IS NO CREDIBLE SECURITY SHIELD IN PLACE TO PROTECT THE FREER POLITICAL AND ECONOMIC STRUCTURES.

OTHER COUNTRIES FACE NEIGHBORS WITH HOSTILE DESIGNS. PAKISTAN LOOKS ACROSS HER BORDER INTO AN AFGHANISTAN OCCUPIED BY SOVIET FORCES. AT THE SAME TIME, SOME THREE MILLION AFGHAN REFUGEES ARE PLACING A HEAVY BURDEN ON THE PAKISTANI GOVERNMENT. OUR INTERESTS DICTATE THAT WE MUST PROVIDE PAKISTAN WITH RESOURCES FOR ECONOMIC ASSISTANCE AND A CREDIBLE DEFENSE. LIKEWISE, THAILAND FACES A VIETNAMESE THREAT FROM

NEIGHBORING CAMBODIA. AND AGAIN OUR INTERESTS DEMAND THAT WE MAKE RESOURCES AVAILABLE SO THAT THAILAND CAN PRESENT A CREDIBLE DEFENSE.

CHAD AND TUNISIA ARE TWO MORE EXCELLENT EXAMPLES. UNTIL RECENTLY LIBYA OCCUPIED THE NORTHERN 40 PERCENT OF CHAD. HOWEVER, OUR SECURITY ASSISTANCE, TOGETHER WITH A MUCH LARGER FRENCH EFFORT, PROVIDED CHADIAN FORCES WITH THE WHEREWITHAL TO MEET THE LIBYAN AGGRESSION, SCORE SPECTACULAR VICTORIES, AND REGISTER THE GREATEST DEFEAT EVER INFLICTED ON QUADHAFI'S TROOPS. FRANKLY, I CAN THINK OF FEW BETTER CASES TO DEMONSTRATE THE VITALLY IMPORTANT ROLE WHICH OUR SECURITY ASSISTANCE PROGRAMS PLAY IN ADVANCING U.S. FOREIGN POLICY GOALS: ACTING IN COOPERATION WITH A WESTERN ALLY, WE HAVE HELPED A COUNTRY DETERMINED TO DEFEND ITSELF WITH ITS OWN FORCES AGAINST AN AGGRESSIVE NEIGHBOR ARMED TO THE TEETH BY THE SOVIET UNION. TUNISIA, HOWEVER, MUST NOW MODERNIZE HER ARMED FORCES TO DETER COLONEL QUADHAFI FROM TRYING HIS LUCK ON ANOTHER PEACEFUL COUNTRY. TO ASSIST TUNISIA IN THIS EFFORT, CONGRESS MUST PROVIDE US THE RESOURCES.

BY USING SECURITY ASSISTANCE THE UNITED STATES PROVIDES RESOURCES TO COUNTRIES UNDER PRESSURE TO DEFEND THEMSELVES. THESE PROGRAMS, AT THE SAME TIME, GREATLY REDUCE THE RISK THAT U.S. FORCES WILL HAVE TO BE COMMITTED. IN NO OTHER WAY COULD WE PROTECT THE VITAL INTERESTS OF THE UNITED STATES AND OTHER FRIENDLY COUNTRIES AT SO LOW A COST. WHERE, AND WHEN, WE HAVE PROVIDED REASONABLE LEVELS OF RESOURCES -- e.g., NATO, KOREA, AND CHAD -- WE CAN POINT TO SUCCESS.

ANOTHER OBJECTIVE OF SECURITY ASSISTANCE IS TO PROMOTE REGIONAL STABILITY. COUNTRIES SUCH AS SENEGAL, JAMAICA, AND

THE SMALL ISLAND STATES OF THE CARIBBEAN, REQUIRE POLITICAL STABILITY SO THAT THEY CAN PURSUE THEIR ECONOMIC DEVELOPMENT PLANS. IN THESE NATIONS OUR ECONOMIC ASSISTANCE IS BY FAR THE MOST IMPORTANT PART OF OUR ASSISTANCE PROGRAMS. NEVERTHELESS, MILITARY ASSISTANCE PLAYS AN ESSENTIAL ROLE.

A LARGE PART OF OUR SECURITY RELATIONSHIP WITH MANY FRIENDLY AND ALLIED COUNTRIES CONSISTS OF SALES OF MILITARY EQUIPMENT. THIS PART OF THE PROGRAM REQUIRES NO APPROPRIATED FUNDS. YET COUNTRIES AS DIVERSE AND DISTANT AS SAUDI ARABIA AND AUSTRALIA, JAPAN AND THE NETHERLANDS, PARTICIPATE. THESE COUNTRIES PURCHASE U.S.-PRODUCED EQUIPMENT FOR CASH. SOME USE THE FMS SYSTEM, OTHERS DIRECT COMMERCIAL SALES, DEPENDING ON THE NEEDS OF THEIR RESPECTIVE MILITARY ESTABLISHMENTS. IN TURN, THEY PROTECT VITAL MUTUALLY SHARED INTERESTS AROUND THE WORLD. AS AN ADDED BENEFIT, THESE PURCHASES SUSTAIN HUNDREDS OF THOUSANDS OF U.S. JOBS. THE PURCHASES ALSO LOWER THE COSTS OF EQUIPPING OUR OWN FORCES BECAUSE THEY LOWER THE UNIT COST OF EACH ITEM PURCHASED.

THE SECURITY ASSISTANCE PROGRAM ALSO PROVIDES GRANT TRAINING TO A NUMBER OF COUNTRIES UNDER THE INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET) PROGRAM. THIS TRAINING GIVES THESE COUNTRIES THE NECESSARY PROFESSIONAL AND TECHNICAL SKILLS THEY NEED TO RUN THEIR MILITARY ESTABLISHMENTS. MANY OF THE OFFICERS TRAINED HERE LATER OCCUPY POSITIONS OF GREAT RESPONSIBILITY -- BOTH MILITARY AND CIVILIAN -- IN THEIR COUNTRIES. IF A FOREIGN OFFICER'S OR NCO'S TRAINING WAS A WORTHWHILE EXPERIENCE -- AND WE WORK HARD TO MAKE SURE THAT IT IS -- THEN THE UNITED STATES HAS A VALUABLE CONTACT. THIS BODY OF FOREIGN OFFICERS TRAINED IN THE UNITED STATES IS A RESOURCE FOR OUR COUNTRY. WE BELIEVE THE VALUE OF THE PROGRAM

FAR EXCEEDS WHAT IT COSTS THE UNITED STATES IN TRAINING. IN OUR JUDGMENT THE IMET PROGRAM -- DOLLAR FOR DOLLAR -- IS A VERY EFFECTIVE PROGRAM.

FINALLY, A SMALL PART OF THE SECURITY ASSISTANCE PROGRAM PROVIDES SUPPORT FOR TWO IMPORTANT PEACEKEEPING MISSIONS, ONE IN CYPRUS AND THE OTHER IN THE SINAI.

IN CLOSING, I WOULD LIKE TO RETURN TO SECRETARY SHULTZ'S THEME THAT DRACONIAN CUTS IN THE FOREIGN AFFAIRS BUDGET ARE CAUSING A SELF-INFLICTED FOREIGN POLICY CRISIS. THE ADMINISTRATION IS FULLY COMMITTED TO REDUCING THE BUDGET DEFICIT. OUR SECURITY ASSISTANCE BUDGET REQUEST FOR FY 1988 CAREFULLY BALANCES THE NEED FOR FISCAL AUSTERITY WITH THE NEED TO PRESERVE NATIONAL SECURITY AND THE U.S. POSITION IN THE WORLD.

ON THE OTHER HAND, WHEN CONGRESS EARMARKS 86 PERCENT OF TOTAL SECURITY ASSISTANCE RESOURCES AND REDUCES OVERALL APPROPRIATIONS SUBSTANTIALLY, THE RESULT IS A SEVERE SHORTFALL IN RESOURCES AVAILABLE FOR UNEARMARKED COUNTRIES, INCLUDING SOME OF GREAT STRATEGIC IMPORTANCE. AS U.S. ABILITY TO PROVIDE SUPPORT DECREASES, THE RISK OF AGGRESSION, AND OF OTHER THREATS TO U.S. INTERESTS IN THESE AREAS RISES . CONGRESS HAS THE AUTHORITY TO EARMARK FUNDS. BUT THE SCOPE OF RECENT EARMARKING, COMBINED WITH THE FAILURE TO PROVIDE ADEQUATE AGGREGATE FUNDING TO MEET NONEARMARKED NEEDS, FAILS TO TAKE PROPER ACCOUNT OF THE UNITED STATES' GLOBAL RESPONSIBILITIES AND DEPRIVES THE U.S. GOVERNMENT OF FLEXIBILITY TO UTILIZE AVAILABLE RESOURCES AS EFFECTIVE TOOLS OF POLICY.

I WOULD ALSO LIKE TO TAKE NOTE OF THE REPORT LANGUAGE ACCOMPANYING THE BUDGET RESOLUTION WHICH ATTEMPTS TO DIRECT A CAPITALIZATION OF THE GUARANTY RESERVE FUND (GRF) OF AT LEAST $532 MILLION. OUR REVIEW INDICATES THAT THIS RECAPITALIZATON WOULD HAVE AN EXTREMELY DELETERIOUS EFFECT ON OUR FY 1988 PROGRAMS BY REDUCING THEM BY THAT AMOUNT AND FURTHER CIRCUMSCRIBING FLEXIBILITY IN ALLOCATIONS. WITHIN EXISTING AUTHORITIES THERE ARE OTHER METHODS OF ADDRESSING THE GRF ISSUE WHICH WOULD NOT HAVE THESE DAMAGING EFFECTS.

THE UNITED STATES CANNOT AFFORD ANOTHER ROUND OF FOREIGN AFFAIRS BUDGET CUTS LIKE THE LAST TWO YEARS. TO DO SO THREATENS OUR INTERESTS AROUND THE WORLD. IT WOULD RAISE TO UNACCEPTABLY HIGH LEVELS THE RISK THAT U.S. FORCES WOULD HAVE TO PROTECT THESE INTERESTS DIRECTLY. IT WOULD SIGNAL FRIENDS, ALLIES, AND ADVERSARIES THAT THE UNITED STATES IS NO LONGER PREPARED TO SHOULDER ITS FAIR SHARE OF RESPONSIBILITY FOR EVENTS. IT WOULD, IN EFFECT, TURN THE UNITED STATES INWARD, A POLICY WE DISCARDED LONG AGO BECAUSE IT DID NOT PREVENT WAR BUT, RATHER, MADE IT MORE CERTAIN. WORSE, WE WOULD MAKE THIS DECISION, NOT BY DEBATING THE PROS AND CONS OF ISOLATIONISM BUT BY "BUDGETEERING." SUCH A COURSE OF EVENTS WOULD HAVE DISASTROUS CONSEQUENCES FOR THIS COUNTRY. I BELIEVE THAT ALL OF YOU HERE FULLY UNDERSTAND THE SCOPE OF THAT POTENTIAL DISASTER.

FACED WITH THESE FACTS, I ASK THAT YOU AND YOUR COLLEAGUES IN THE CONGRESS PROVIDE THE FUNDS WE NEED TO SUPPORT THE VITAL INTERESTS OF THE UNITED STATES. POLICY WITHOUT RESOURCES IS HOLLOW POLICY INDEED. WORKING TOGETHER WE CAN ACHIEVE THE GOALS WE HAVE SET OUT TO ACCOMPLISH -- AS DID PRESIDENT TRUMAN, SECRETARY OF STATE MARSHALL, AND THE CONGRESS 40 YEARS AGO.

REMARKS OF GENERAL GAST

Senator MIKULSKI. Thank you very much, Mr. Undersecretary.

General Gast, do you wish to make a few comments?

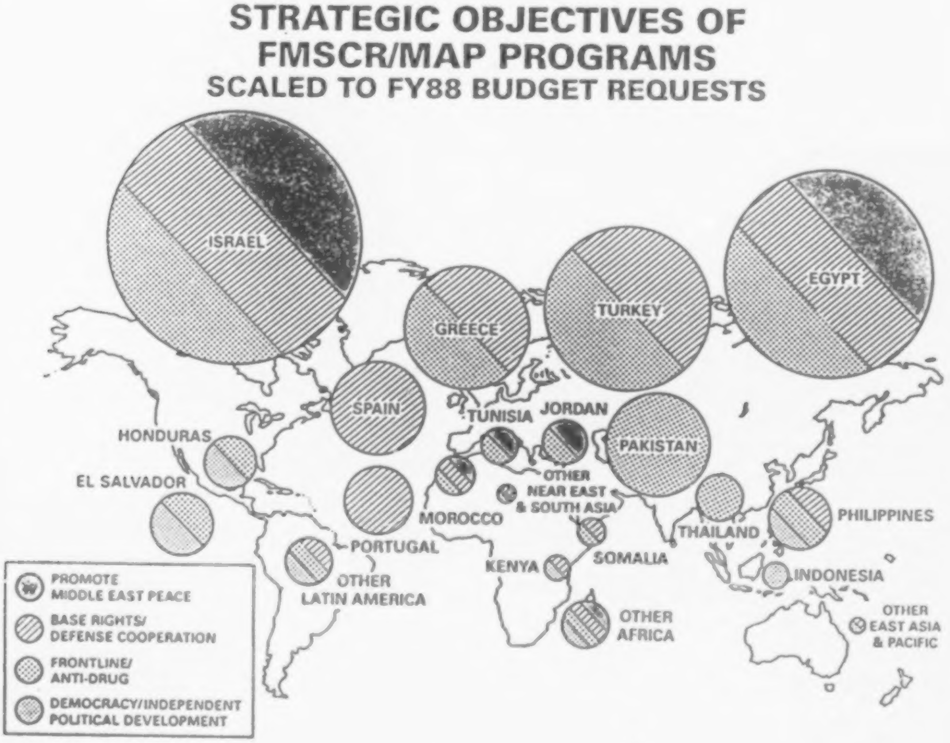
General GAST. Yes.

Madam Chairman and members of the committee, it is a pleasure to appear before you again this year. I will try to abide by the 5-minute rule, but if you will forgive me, I think this is a very complex issue and I would like to set the stage for a discussion a little bit later. If I may move to the charts, please.

I have appeared before the committee and several others for five successive years in support of my State Department colleagues and their bill, the Foreign Aid Bill, the 150 Account.

Throughout that period, we, in DOD, have worked very closely, under Secretary Weinberger's guidance, with Secretary of State Shultz, to work out a balanced approach budget to support all functions of the 150 Account, which you know are numerous.

This year and, in fact, even last year, unfortunately, my experience has been, in working with the Congress, that the attention is placed on numbers and the need to reduce rather than a good dialogue on the impact on our foreign policy, our own defense strategy, and our own trade situation.



STRATEGIC OBJECTIVES OF FMSCR/MAP PROGRAMS
SCALED TO FY88 BUDGET REQUESTS

ISRAEL
GREECE
TURKEY
EGYPT
SPAIN
TUNISIA
JORDAN
PAKISTAN
HONDURAS
EL SALVADOR
MOROCCO
OTHER NEAR EAST & SOUTH ASIA
THAILAND
PHILIPPINES
PORTUGAL
KENYA
SOMALIA
INDONESIA
OTHER LATIN AMERICA
OTHER AFRICA
OTHER EAST ASIA & PACIFIC
PROMOTE MIDDLE EAST PEACE
BASE RIGHTS/ DEFENSE COOPERATION
FRONTLINE/ ANTI-DRUG
DEMOCRACY/INDEPENDENT POLITICAL DEVELOPMENT

CHART 1

AREAS OF FOREIGN POLICY INTEREST

This first chart attempts—and I have handed out smaller charts for your reference—to lay out many places where our foreign policy interests really exist and our own defense strategy. We can't get them all on the map.

It is scaled, that is relative scaling to the fiscal year 1988 budget request. For your information, the largest circle represents, in the 1988 President's budget request, $1.8 billion for Israel. Egypt is $1.3 billion. El Salvador is about $120 million, and if you will look down at Thailand that is some $65 million. You can see that our support and our interest are, indeed, across the world, broad.

We have indicated to you, for example, the countries where our support is to help them maintain their interest in the peace process involving Israel and its Arab neighbors. It shows where we have base rights or access to facilities that are important to us, not only for oil but also for other places and contingencies. It demonstrates how this program supplements our efforts and helps us obtain our objectives. It also shows where we have frontline states, and those countries where there is democratic political development.

To look at this, one could envision an Eastern Pacific strategy where we have very much at stake including trade. As I know you are very much aware, we are trying to support the Philippines where the problems are multifaceted. As you can see, many of these countries meet many of our strategic interests.

In Indonesia and across the Straits of Malacca, Thailand, of course, facing the Vietnamese and Cambodians, on up through Southwest Asia, Pakistan facing the Afghans, across the Mediterranean littoral, where we have three things working, the peace process, access to facilities in Morocco, Egypt, Somalia, Kenya, but also in the southern tier of NATO. I also highlight Turkey, Spain, Portugal, as part of NATO strategy as well as our strategies in the Mid-East, Southwest Asia and, of course, Central America and Africa.

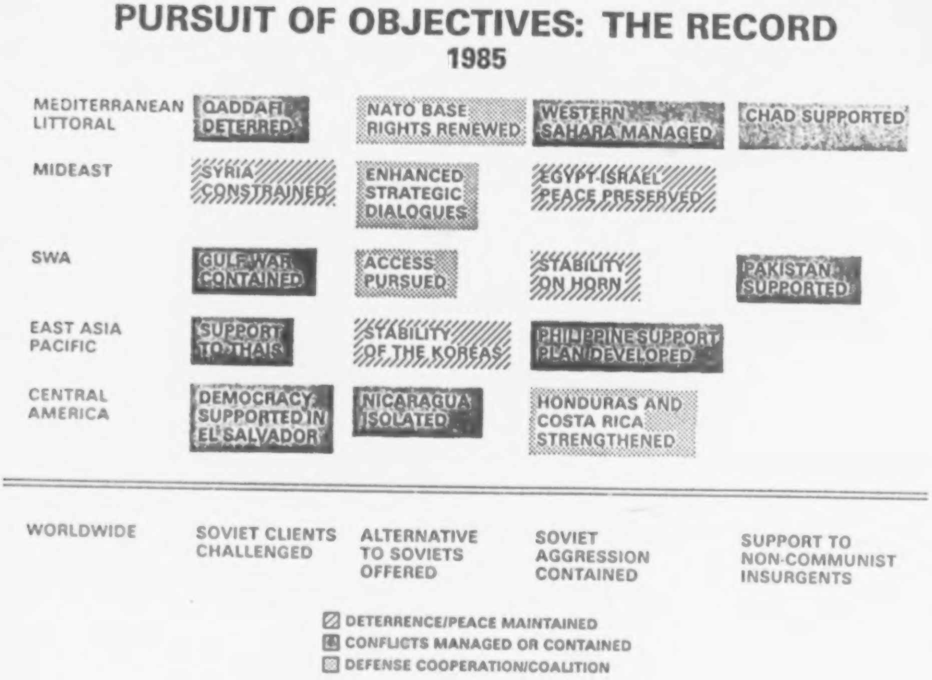

PURSUIT OF OBJECTIVES: THE RECORD
1985
MEDITERRANEAN LITTORAL
QADDAFI DETERRED
NATO BASE RIGHTS RENEWED
WESTERN SAHARA MANAGED
CHAD SUPPORTED
MIDEAST
SYRIA CONSTRAINED
ENHANCED STRATEGIC DIALOGUES
EGYPT-ISRAEL PEACE PRESERVED
SWA
GULF WAR CONTAINED
ACCESS PURSUED
STABILITY ON HORN
PAKISTAN SUPPORTED
EAST ASIA PACIFIC
SUPPORT TO THAIS
STABILITY OF THE KOREAS
PHILIPPINE SUPPORT PLAN DEVELOPED
CENTRAL AMERICA
DEMOCRACY SUPPORTED IN EL SALVADOR
NICARAGUA ISOLATED
HONDURAS AND COSTA RICA STRENGTHENED
WORLDWIDE
SOVIET CLIENTS CHALLENGED
ALTERNATIVE TO SOVIETS OFFERED
SOVIET AGGRESSION CONTAINED
SUPPORT TO NON-COMMUNIST INSURGENTS
DETERRENCE/PEACE MAINTAINED
CONFLICTS MANAGED OR CONTAINED
DEFENSE COOPERATION/COALITION

CHART 2

FOREIGN AID PROGRAM EFFECTIVENESS

In 1985, about this time, I used this chart to review for the committee what the administration saw as the record in the effectiveness of the Foreign Aid program, not only in military assistance, but all of the foreign aid that had been supported by Congress throughout the years.

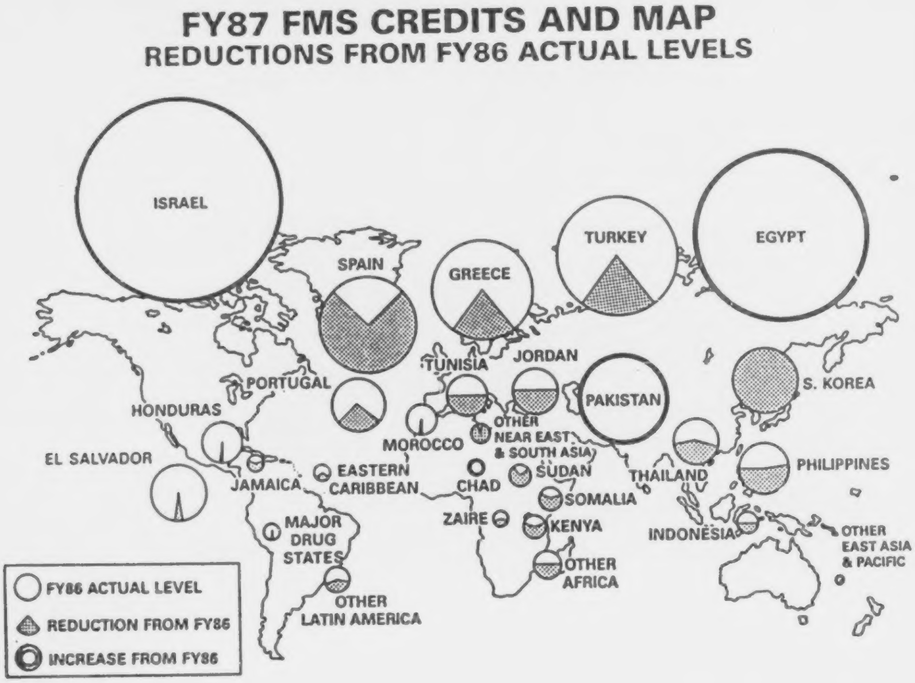
I have these geographically laid out again for you for your easy reference.

In the Mediterranean littoral, for example, Quaddafi was deterred, the conflict in Western Sahara managed, and Chad supported. In the Mid-East: Syria was contained and Egypt-Israel peace was preserved. Access into Southwest Asia was preserved, deterrence and peace maintained, and other conflicts managed. Things have worked very well.

Throughout all this period, under Secretary Weinberger's and Secretary Shultz's guidance, we have formed a very close planning relationship and effective relationship, not only with the military leaders in each of these countries that I am talking about, but also the civilian leaders.

In that way, by gaining that influence with them and providing them the assistance that they needed, we, in fact, have had a very effective dialogue and it was very much in support of the United States foreign policies and defense strategies.

In this period, in 1987, with the actual allocations, I see signs and worries that trouble us in the administration, and I believe Congress too, as to whether we can maintain that focus and hold that record.



FY87 FMS CREDITS AND MAP
REDUCTIONS FROM FY86 ACTUAL LEVELS

ISRAEL
SPAIN
GREECE
TURKEY
EGYPT
PORTUGAL
TUNISIA
JORDAN
PAKISTAN
S. KOREA
HONDURAS
MOROCCO
OTHER NEAR EAST & SOUTH ASIA
EL SALVADOR
JAMAICA
EASTERN CARIBBEAN
CHAD
SUDAN
THAILAND
PHILIPPINES
SOMALIA
ZAIRE
KENYA
INDONESIA
OTHER EAST ASIA & PACIFIC
MAJOR DRUG STATES
OTHER AFRICA
OTHER LATIN AMERICA
○ FY86 ACTUAL LEVEL
REDUCTION FROM FY86
INCREASE FROM FY86

CHART 3

EGYPTIAN AND ISRAELI ALLOCATIONS

On this chart, here again, I show Egypt and Israel. Each country's size is relative scaling thus Israel's $1.8 billion size. The outer circle represents the 1986 allocation. We had to have cuts in each country as a result of the 1987 appropriation.

We have provided additional aid in Israel, Egypt and Pakistan. It was a restoration of the Gramm-Rudman sequestered amount of fiscal year 1986, that is the 4.3-percent reduction that had occurred in 1986.

An example, in 1987, we were unable to give Korea any aid. They are now more of an equal partner because of their economy. But, in effect, because Greece, Turkey, and Pakistan were earmarked, as well as Israel and Egypt, we had only 14 percent discretionary spending for all of the rest of the world. It also meant an $800 million reduction from what we had had in 1986.

The impact is severe, as you can see. The Philippines was cut in half. We could not give them $100 million. Instead we decided to keep our other programs going because we have interests all around the world.

We had to reduce Spain from $400 million to $105 million. We had to reduce Turkey from a high level requested to only the $490 million that was earmarked.

Throughout this period, there were many of us who traveled to most of these countries. I traveled to 43 of them myself last year. To be sure, some of them were in NATO.

We asked them to be patient, to understand that there was, in fact, a deficit problem in the United States and we wanted to maintain a very close relationship with them, not only the military, but the civilians, all elements that have received foreign aid.

We managed somehow or another to persevere. In fact, I think our chart would show that that is probably still pretty accurate right at the moment. It has not changed in the last 2 years, largely the result of a lot of consultation and work, but in each one of these countries, I can tell you that there is a great deal of concern.

There is concern not only that the United States is readily going to leave them, that they have gone out on a limb, many of them, to be with us and the West, with their people, the military, but also how will they meet urgent defense requirements and maintain deterrence as they proceed.

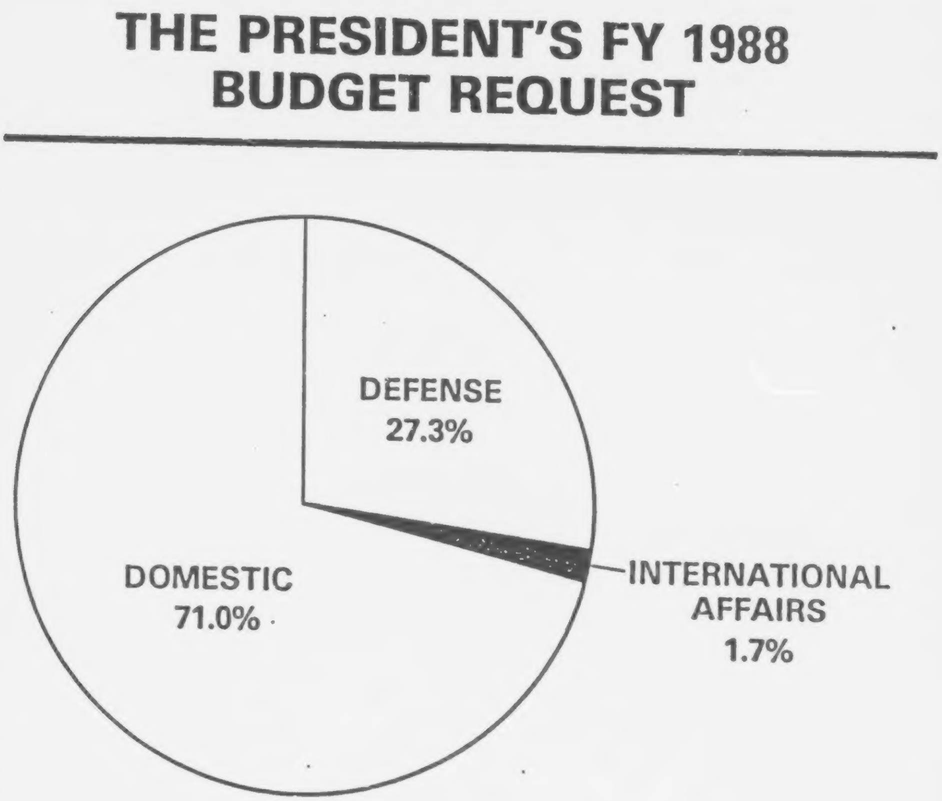


CHART 4

150 ACCOUNT

This is what the President has asked for; it is, for the whole 150 Account, only 1.7 percent of the whole Federal budget. The rest is divided between defense and domestic programs. What our concern has been, and it is showing up again this year, I believe, and that people are largely debating over these is that this is where the Federal budget is taking the great cut.

It is, we believe, a very serious concern. The Secretary said that he could go for only a 3-percent increase in the DOD budget if we got this kind of money for military assistance in order to support and supplement our defense and to enable countries to work with it. Of the Federal budget, only .5 percent is for military assistance in this entire budget.

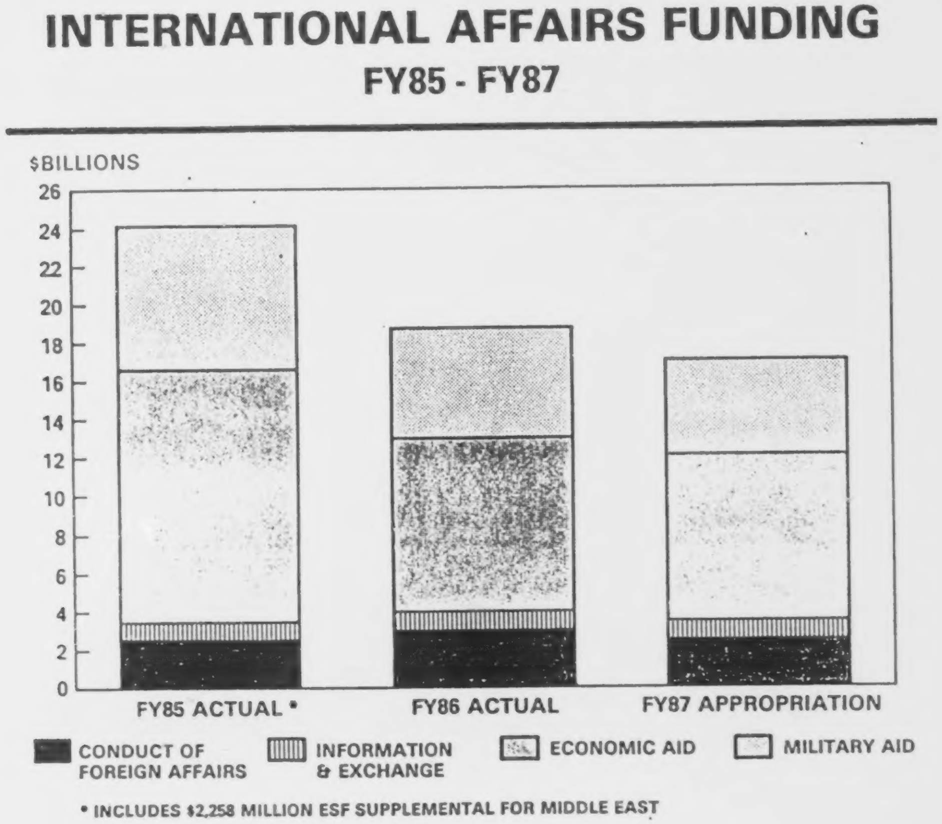


CHART 5

FOREIGN AID FUNCTIONS

This chart will show you the various broad functions for foreign aid, to include foreign affairs, which have gone down as you know. The "conduct of foreign affairs" part is largely the State Department, its role overseas, its embassies, and so forth, as well as its security.

Information exchange has been squeezed some, but economic and military have come down in the most drastic amounts, somewhere around 35 percent since 1985.

At the same time, the Federal budget was increasing 1 or 2 percent. Things began to become askew in 1986 and 1987.

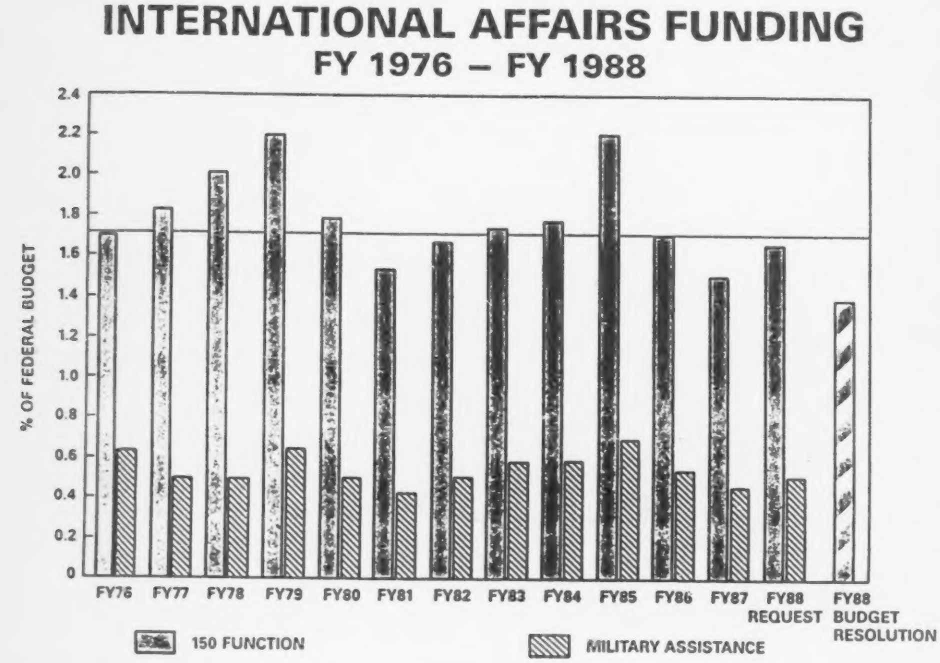


CHART 6

PERCENT OF 150 ACCOUNT

This chart, by the best calculations we can make, Madam Chairman, reflects the percent of the entire 150 Account, not just military assistance, that, in fact, has been appropriated throughout the years by Congress including appropriations made back in the Carter Administration and throughout the Reagan Administration.

If one averages this out, up and including the fiscal year 1988 request time period, the average has been about 1.8 percent of the budget. Therefore, I believe it points out that both the administration and the Congress have wrestled throughout the years to determine the entire budget, whatever could be supported and that a certain percent should be given to foreign affairs in the interests of our foreign policy and defense.

This year, in 1987, the percentage dropped markedly below the 1.8 percent average. The President's request is a little bit lower than the traditional part within the total budget, but the budget resolution went all the way down to 1.4 percent and that is what we are faced with today.

Many people say that it might be that low, not a freeze, but possibly a reduction of significant importance in amounts that would not only affect military assistance, but AID, the VOA, the banks and a whole range of things.

We are simply arguing that, working with the Congress, we should all support our interests overseas, that we should not be penalizing our interests overseas, our defense and our foreign affairs, our trade issues by lowering our funding to this rather remarkable, and alarming, and unprecedented level.

The hatch-mark reflects that portion of it that goes to military assistance, which has been generally, about 0.5 percent as I indicated to you.

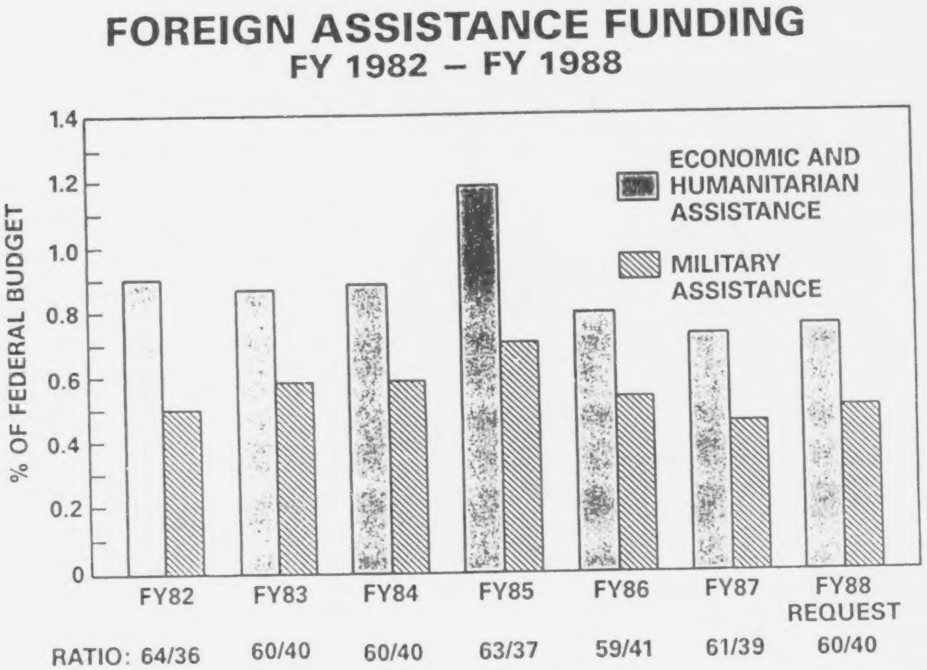


CHART 7

ECONOMIC AND MILITARY ASSISTANCE

There are some that argue that over the years the administration and Congress have gotten economic and military assistance out of kilter, that we need more economic, or less military assistance or vice versa. In fact, the traditional point of view taken by Congress, and supported by the administration is that the ratio of economic to military is 60 percent for economic and 40 for military.

To be sure, economic support funds, ESF, are counted with other economic assistance. Sometimes people confuse it because they refer to it as security assistance and hence, it must be military assistance. In fact, it is not.

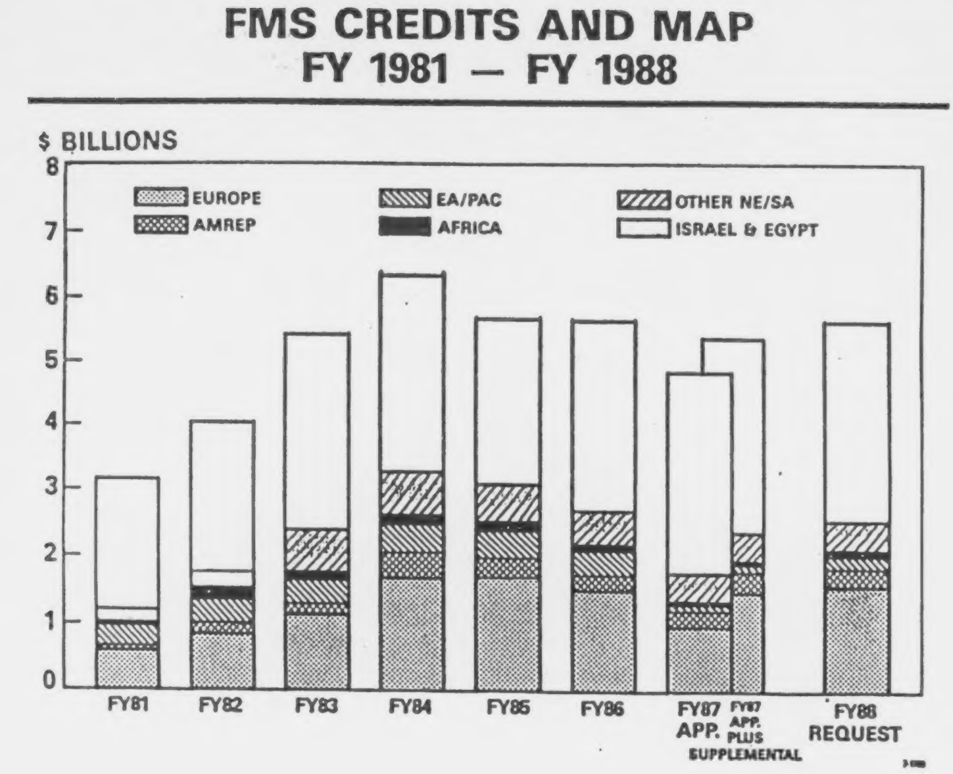


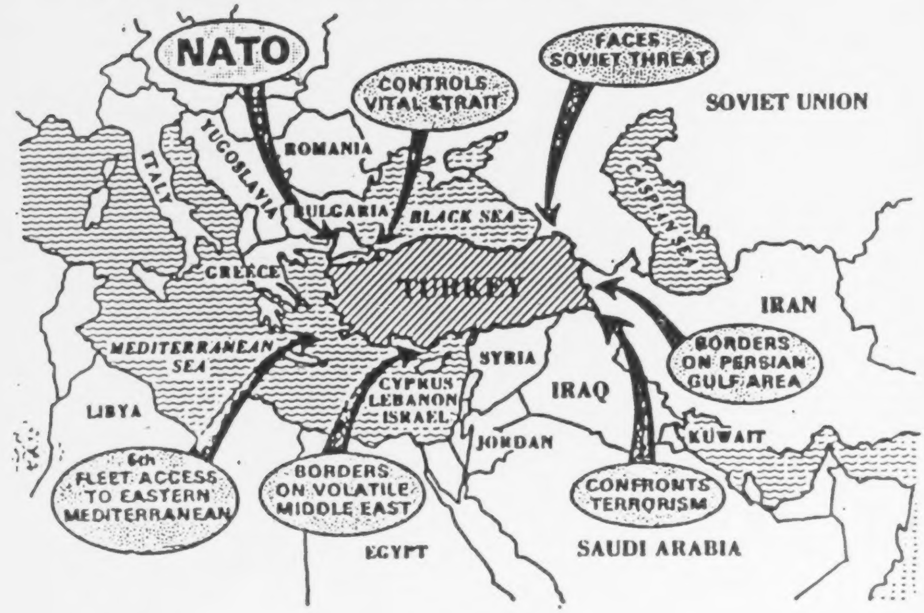
CHART 8

BUDGET PERCENTAGE TO EGYPT AND ISRAEL

Here is another way of seeing what happened and where we are today. You can see readily that Israel and Egypt have traditionally taken about half of the budget through earmarking. Last year it went as high as some 60 percent because of low appropriations.

As a result of that, there is a terrible compression felt around the world against our interests to where other countries were squeezed out, most notably Europe and all of the NATO countries where we have base rights, and also in East Asia and the Pacific. The only reason that the black is as high as it is because of earmarking for Pakistan.

This compression below our rather traditional level, in fact, caused major dislocations. The supplemental which was not favorably acted upon except for the Philippines, for which we are appreciative, did not make it up. Actually the 1988 request is to go back to what the President actually got in 1986. It is not an increase in the budget; it is just simply holding the line.



NATO
CONTROLS VITAL STRAIT
FACES SOVIET THREAT
SOVIET UNION
YUGOSLAVIA
ROMANIA
ITALY
BULGARIA
BLACK SEA
CASPIAN SEA
GREECE
TURKEY
IRAN
MEDITERRANEAN SEA
SYRIA
BORDERS ON PERSIAN GULF AREA
CYPRUS
LEBANON
ISRAEL
IRAQ
LIBYA
JORDAN
KUWAIT
6th FLEET ACCESS TO EASTERN MEDITERRANEAN
BORDERS ON VOLATILE MIDDLE EAST
CONFRONTS TERRORISM
EGYPT
SAUDI ARABIA

TURKEY AT STRATEGIC CROSSROADS

CHART 9

TURKEY

One has to talk about Turkey each time because it is crucial to the alliance, and it is crucial to our own security, as well as our foreign policy. I do not mean to diminish the importance of Greece in any way by talking about Turkey, but you can see that it is in NATO. It faces the Soviet threat. It controls the Bosporus and the Dardanelles, access to those straits and it controls terrorism. It borders on Southwest Asia. Then, of course, it has volatile neighbors.

One has to wonder who needs more, the Turks or us. I don't propose to get into that except that I would say that it is probably a dead heat. The fact that we have many installations there, radar sites, intelligence gathering sites, seismographic sites, and other facilities in there, indicates that they are, in fact, holding a crucial part of the under-belly of the southern region.

Last year, they received $490 million as earmarked by Congress, which we appreciated, probably with a lot of help from this committee, but this year, we believe that they need $570 million, to maintain the programs that are on-going and to provide for the O&M. The $490 million was enough, but $570 million is the number this year. That means an increase for this country.

Senator MIKULSKI. General, in the interest of Mr. Derwinski's time, and I know these are your charts, I would really like to begin my questioning no later than 11:00 o'clock. Do those additional ones provide amplification to your very cogent and crisp remarks so far?

General GAST. Yes, Ma'am. Let me work with that.

Senator MIKULSKI. I understand that it is the Undersecretary who has to leave at noon. So if we are going to move, we had better move it.

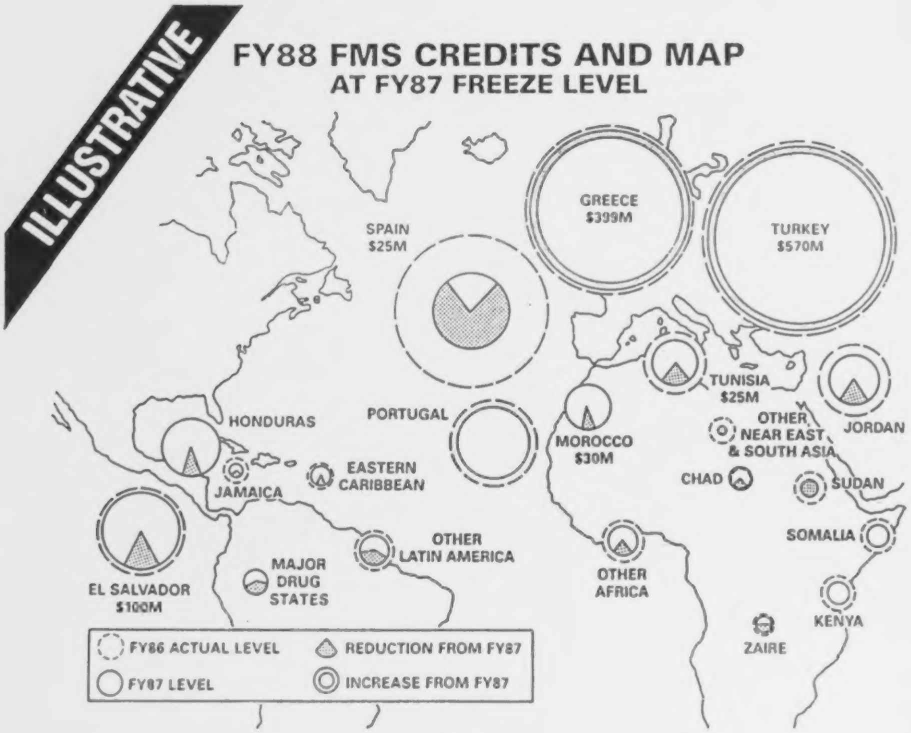

ILLUSTRATIVE
FY88 FMS CREDITS AND MAP
AT FY87 FREEZE LEVEL
SPAIN
$25M
GREECE
$399M
TURKEY
$570M
TUNISIA
$25M
JORDAN
HONDURAS
PORTUGAL
MOROCCO
$30M
OTHER
NEAR EAST
& SOUTH ASIA
CHAD
SUDAN
JAMAICA
EASTERN
CARIBBEAN
SOMALIA
EL SALVADOR
$100M
MAJOR
DRUG
STATES
OTHER
LATIN AMERICA
OTHER
AFRICA
KENYA
ZAIRE
FY86 ACTUAL LEVEL
REDUCTION FROM FY87
FY87 LEVEL
INCREASE FROM FY87

CHART 10

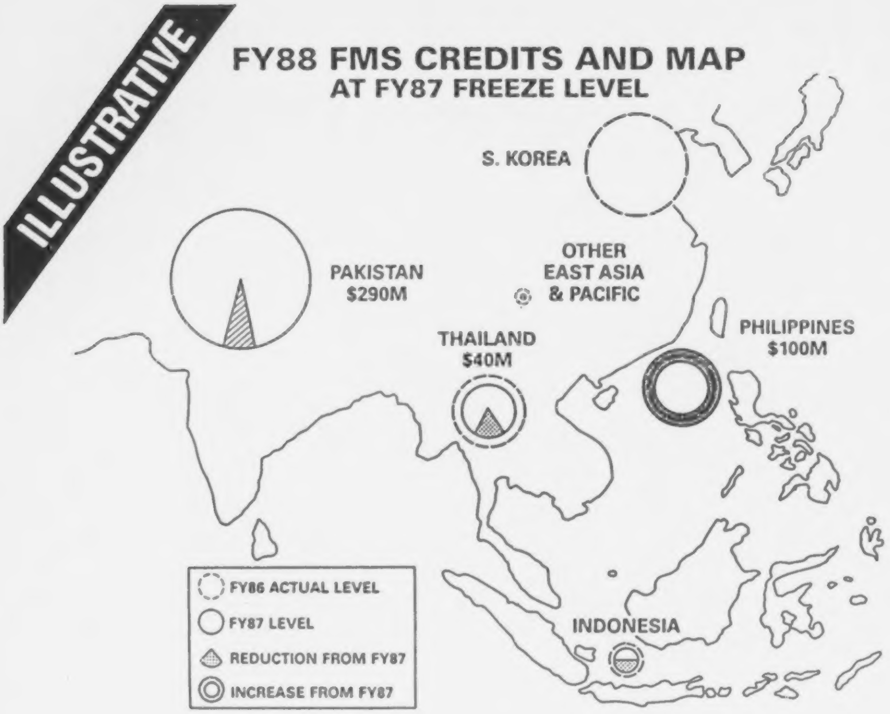
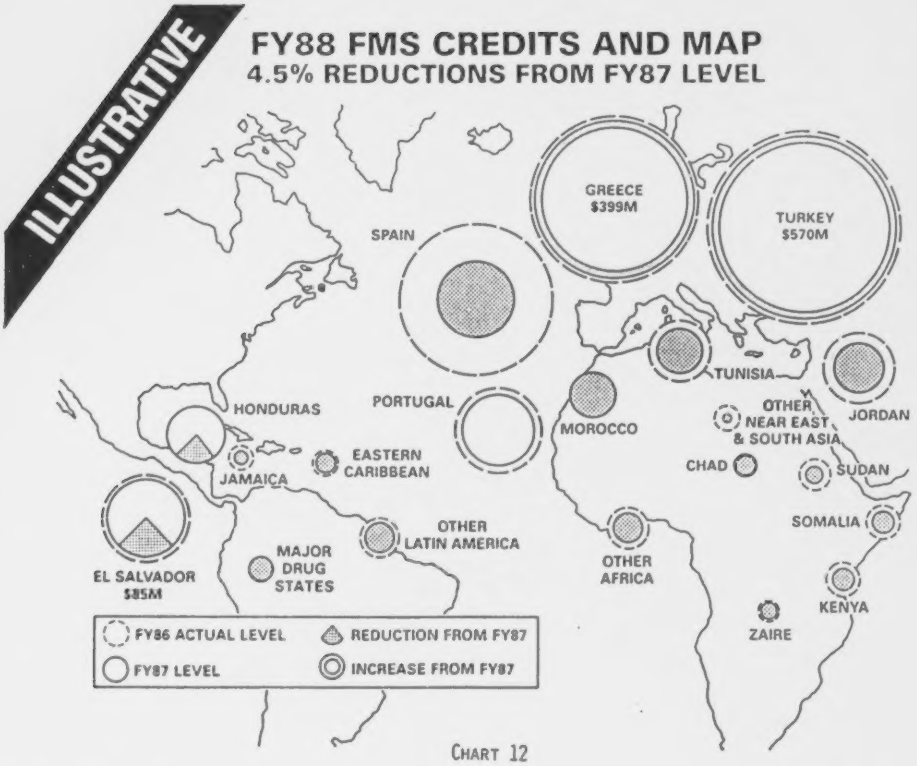

ILLUSTRATIVE
FY88 FMS CREDITS AND MAP
AT FY87 FREEZE LEVEL
S. KOREA
PAKISTAN
$290M
OTHER
EAST ASIA
& PACIFIC
THAILAND
$40M
PHILIPPINES
$100M
INDONESIA
FY86 ACTUAL LEVEL
FY87 LEVEL
REDUCTION FROM FY87
INCREASE FROM FY87

Chart 11

General Gast. I think that these two are important charts for you to look at. If you impose a freeze this year, and no more, and if you recognize the needs for Turkey, which we believe are very strong, and if the Congress continues what we do not support, that is automatic earmarking or ratios of 7/10, and if you bring the Philippines up to its level of $100 million, then, in fact, you will be faced with a situation of cutting out many programs.

For example, for Spain, and I will speak to it, this dashed circle was the 1986 level, and the solid circle was the 1987 level, it will go down to some $25 million. It really creates quite a compression. Tunisia would go down to $25 million. It was at $64 million in 1986.

Portugal, we can maintain whole, but look at Jordan and others. Pakistan refers to the $290 million. You can see the Philippines over there. It becomes more and more of a compression if we stay at the freeze level particularly if we adequately fund Turkey, and if we adequately fund the Philippines.



FY88 FMS CREDITS AND MAP

4.5% REDUCTIONS FROM FY87 LEVEL

ILLUSTRATIVE
GREECE
$399M
TURKEY
$570M
SPAIN
TUNISIA
JORDAN
PORTUGAL
HONDURAS
MOROCCO
OTHER
NEAR EAST
& SOUTH ASIA
CHAD
SUDAN
JAMAICA
EASTERN
CARIBBEAN
OTHER
LATIN AMERICA
SOMALIA
OTHER
AFRICA
MAJOR
DRUG
STATES
EL SALVADOR
$85M
KENYA
ZAIRE
FY86 ACTUAL LEVEL
REDUCTION FROM FY87
FY87 LEVEL
INCREASE FROM FY87

CHART 12

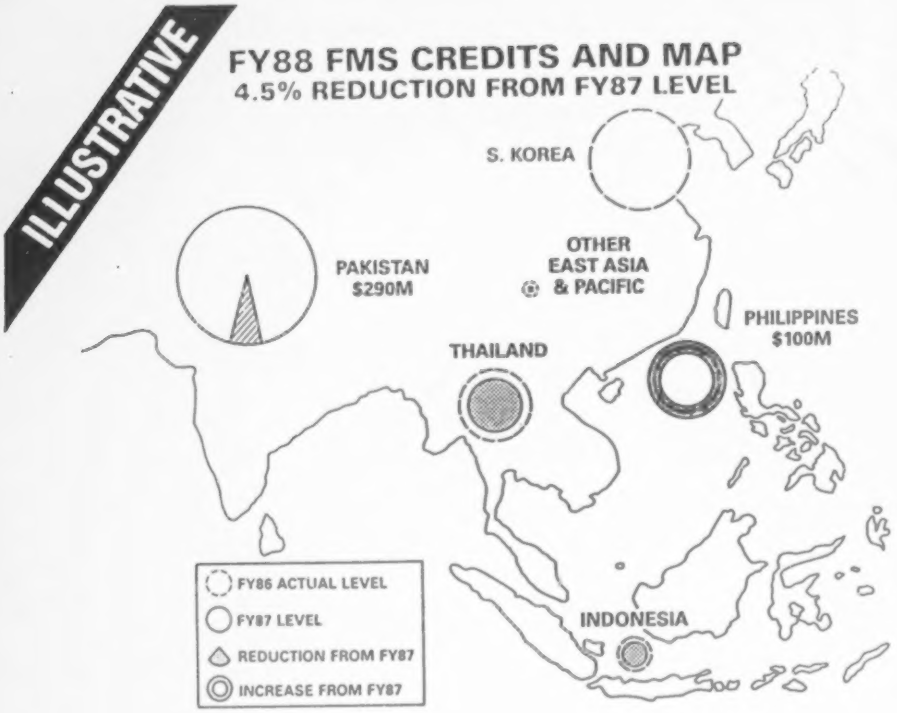

ILLUSTRATIVE
FY88 FMS CREDITS AND MAP
4.5% REDUCTION FROM FY87 LEVEL
S. KOREA
PAKISTAN
$290M
OTHER
EAST ASIA
& PACIFIC
PHILIPPINES
$100M
THAILAND
INDONESIA
FY86 ACTUAL LEVEL
FY87 LEVEL
REDUCTION FROM FY87
INCREASE FROM FY87

CHART 13

But with a 4.5 percent reduction, Madam Chairman, if you adequately support Turkey, and if you adequately support the Philippines, means that we know of no way of spreading the loss around the world. We will lose flexibility. You will see that many countries will receive zero funding. If that is what we are faced with, then this is how we have to deal with it. It is almost all but unmanageable. In fact, it is unmanageable.

LEGISLATIVE PROPOSALS IN APPROPRIATIONS REQUEST

- TRANSFER UNCOMMITTED FMS CREDITS FOR THE PHILIPPINES TO FORGIVEN FMS
- SET IMET REPROGRAMMING THRESHOLD AT $25,000
- ESTABLISH FY88 SDAF OBLIGATIONAL AUTHORITY AT $350 MILLION
- EXTEND SDAF OBLIGATION AUTHORITY TO TWO YEARS

CHART 14

These, let me go through them quickly, are the requests that we have made for legislation in the appropriations bill including obligation authority to support SDAF.

THE ISSUE

CAN WE NOT AFFORD TO MAINTAIN INTERNATIONAL AFFAIRS' TRADITIONAL SHARE OF THE BUDGET SO THAT THE U.S. CAN:

- PROTECT THE VIABILITY OF ITS GLOBAL DEFENSE STRATEGIES?
- PRESERVE ITS CRITICAL INTERNATIONAL ECONOMIC TIES?
- PROVIDE THE WORLD LEADERSHIP NECESSARY TO PEACE AND GROWTH?

MILITARY ASSISTANCE IS NOT A GIVE-AWAY PROGRAM, AND IT DOES NOT REALLY ADD TO THE DEFICIT

- MILITARY ASSISTANCE CREATES JOBS, TAX REVENUE, DOD PROCUREMENT AND PERSONNEL SAVINGS, AND USG INTEREST SAVINGS
- 75% OF FY86 FMSCR/MAP APPROPRIATIONS ARE RECOUPED (130% WITH CASH MILITARY SALES)
- IMAGINE THE COSTS OF DEFENDING OUR OVERSEAS INTERESTS WITHOUT THE HELP OF STRONG FRIENDS AND ALLIES?

THE U.S. CAN AFFORD NOTHING LESS THAN TO ADEQUATELY FUND THESE PROGRAMS

CHART 15

BENEFITS OF SECURITY ASSISTANCE PROGRAM

Finally, with 30 seconds, this is where we believe we are, which is, I think, adequately covered on the last chart. Can we not afford to do it? It is not a give-away program. It is not a deficit program, and we should not use that reasoning against doing it. In fact, I can demonstrate in a paper that the security assistance program pays its own way, and the fact that we must adequately fund our programs.

Thank you very much, Madam Chairman.

[The prepared statement of General Gast follows:]

PREPARED STATEMENT OF LT. GEN. PHILIP C. GAST, USAF
DIRECTOR
DEFENSE SECURITY ASSISTANCE AGENCY

INTRODUCTION

MR. CHAIRMAN, I AM GLAD TO HAVE THIS OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS OUR SECURITY ASSISTANCE PROGRAM. THIS HEARING IS PARTICULARLY TIMELY BECAUSE, IN OUR VIEW, WE ARE AT A CRITICAL JUNCTURE FOR OUR ENTIRE PROGRAM: WE ARE DEEPLY CONCERNED ABOUT HOW THE BUDGET RESOLUTION WILL IMPACT THE FOREIGN POLICY OF THE UNITED STATES FOR YEARS TO COME. OUR CONCERN IS ESPECIALLY INTENSE IN LIGHT OF THE BUDGETARY EVENTS OF THE LAST TWO YEARS. WE RECOGNIZE THE SERIOUSNESS OF OUR FEDERAL DEFICIT AND APPRECIATE CONGRESS' NEED TO MEET THE PRESCRIBED BUDGET TARGETS; THE PRESIDENT'S BUDGET MEETS THOSE TARGETS. BUT OUR POSITION IN DOD HAS ALWAYS BEEN THAT THE SECURITY ASSISTANCE PROGRAMS REPRESENT THE OVERSEAS COUNTERPARTS OF OUR OWN DEFENSE EFFORTS AND ARE NO LESS AN INVESTMENT IN U.S. NATIONAL SECURITY THAN THE PROGRAMS FOR DEPARTMENT OF DEFENSE. THESE PROGRAMS REAP HIGH RETURNS IN AMERICAN SECURITY AND THE AMERICAN TRADE POSITION, YET THEY ARE NOT A DRAIN ON THE U.S. TAXPAYER.

I WILL CONCENTRATE MY REMARKS ON, FIRST, THE MAJOR STRATEGIC OBJECTIVES UNDERLYING OUR SECURITY ASSISTANCE PROGRAM REQUEST FOR FY88. NEXT I'LL ADDRESS THE IMPACT AND IMPLICATIONS OF FY87 FUNDING CUTS ON THOSE STRATEGIC OBJECTIVES AND FINALLY, I'LL DISCUSS THE CONSEQUENCES SHOULD EITHER A FREEZE OR FURTHER REDUCTIONS BE CONTINUED IN FY88.

STRATEGIC OBJECTIVES OF FMSCR/MAP PROGRAMS
SCALED TO FY88 BUDGET REQUESTS

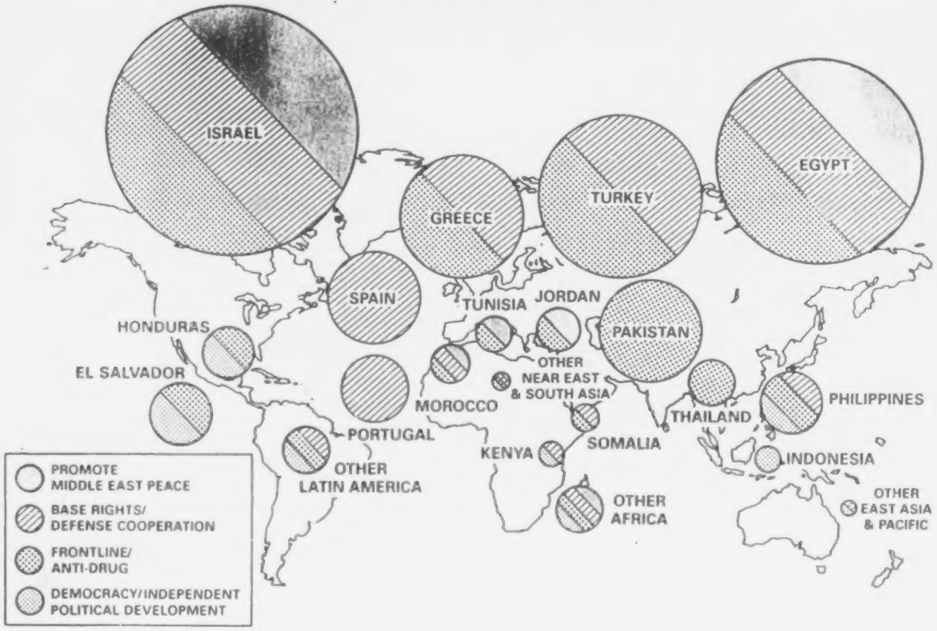

ISRAEL
GREECE
TURKEY
EGYPT
SPAIN
TUNISIA
JORDAN
PAKISTAN
HONDURAS
EL SALVADOR
MOROCCO
OTHER NEAR EAST & SOUTH ASIA
PORTUGAL
THAILAND
PHILIPPINES
SOMALIA
KENYA
INDONESIA
OTHER LATIN AMERICA
OTHER AFRICA
OTHER EAST ASIA & PACIFIC
PROMOTE MIDDLE EAST PEACE
BASE RIGHTS/ DEFENSE COOPERATION
FRONTLINE/ ANTI-DRUG
DEMOCRACY/INDEPENDENT POLITICAL DEVELOPMENT

CHART 1: STRATEGIC OBJECTIVES

TO BETTER UNDERSTAND HOW WE DEVELOP OUR FUNDING REQUESTS TO SUSTAIN OUR WORLDWIDE PROGRAMS, LET ME REVIEW OUR PRINCIPAL STRATEGIC OBJECTIVES AND GLOBAL INTERESTS.

THIS MAP, SCALED TO THE ADMINISTRATION'S FY88 REQUEST, SHOWS THOSE COUNTRIES WHERE WE HAVE MAJOR SECURITY ASSISTANCE PROGRAMS AND THE IMPORTANCE OF THESE PROGRAMS. THE COLOR CODES REPRESENT THE STRATEGIC OBJECTIVES WE ARE SEEKING TO ACHIEVE AROUND THE WORLD THROUGH SECURITY ASSISTANCE. THESE OBJECTIVES HAVE BEEN CONSISTENT OVER THE LAST SIX YEARS AND HAVE BEEN SUPPORTED BY THE CONGRESS. AS SHOWN IN GREEN, OUR PROGRAMS PROVIDE ASSISTANCE TO THOSE COUNTRIES WHICH HAVE AGREED TO ALLOW U.S. BASES ON THEIR TERRITORY. THESE BASING AGREEMENTS GIVE THE U.S. AN ABILITY TO RAPIDLY TRANSPORT AND PROJECT MILITARY POWER FAR FROM OUR SHORES AND ENHANCE OUR ABILITY TO OPERATE EFFECTIVELY WITH THE ARMED FORCES OF ALLIED COUNTRIES.

U.S. MILITARY FACILITIES IN PORTUGAL, SPAIN, GREECE, TURKEY AND PHILIPPINES PLAY A CRITICAL ROLE IN U.S. GLOBAL STRATEGY.

WE ALSO HAVE ARRANGEMENTS WITH A NUMBER OF OTHER COUNTRIES TO PERMIT OUR MILITARY USE OF THEIR AIR OR PORT FACILITIES. THESE ARRANGEMENTS ENABLE US TO QUICKLY PROJECT POWER TO CRITICAL HOT SPOTS AND, IF NECESSARY, TO SUSTAIN OPERATIONS ABROAD. OUR CURRENT HIGHLY SUCCESSFUL AND USEFUL ARRANGEMENTS WITH MOROCCO, SOMALIA, KENYA AND OMAN EXEMPLIFY THE BENEFITS WE DERIVE FROM OUR INTERNATIONAL ASSISTANCE PROGRAMS.

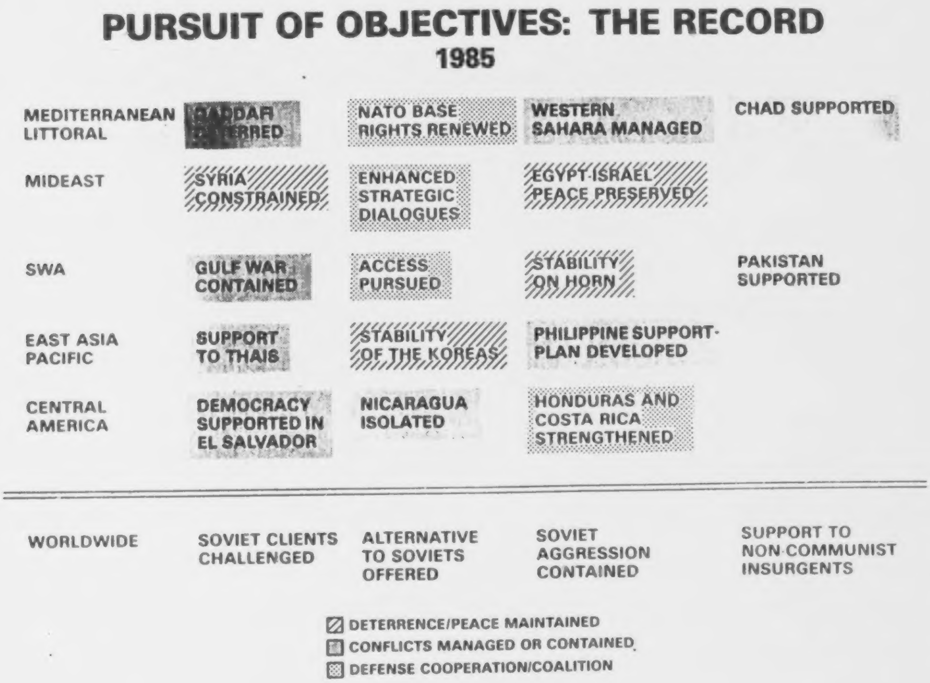
OUR SECURITY ASSISTANCE PROGRAMS ALSO ARE INTENDED TO ASSIST FRIENDLY COUNTRIES DIRECTLY THREATENED ON THIER BORDERS BY SOVIET, WARSAW PACT OR SOVIET-SUPPORTED FORCES AS SHOWN IN BROWN. OUR ASSISTANCE, IN GENERAL, HELPS COUNTRIES MAKE BETTER USE OF THEIR OWN RESOURCES IN DETERRING REGIONAL TROUBLEMAKERS OR COPING WITH DANGEROUSLY DESTABILIZING INTERNAL THREATS THAT MAY BE INSPIRED OR SUPPORTED BY OUTSIDE FORCES. RECIPIENTS IN THIS CATEGORY INCLUDE PAKISTAN, TURKEY, EL SALVADOR, HONDURAS, AND SEVERAL OTHERS, INCLUDING CHAD, SUDAN, TUNISIA AND MOROCCO.

IN ADDITION TO THESE DEFENSE AND SECURITY-RELATED MOTIVES FOR SECURITY ASSISTANCE, OUR PROGRAMS ALSO SUPPORT MAJOR AMERICAN FOREIGN POLICY GOALS SUCH AS THE PURSUIT OF PEACE IN THE MIDDLE EAST, SHOWN IN BLUE. THIS OBJECTIVE IS SO IMPORTANT THAT WE CONTINUE TO ALLOCATE THE LARGEST COUNTRY ASSISTANCE LEVELS FOR ISRAEL AND EGYPT.

FINALLY, IN YELLOW ARE SHOWN THOSE COUNTRIES IN WHICH OUR ASSISTANCE SUPPORTS COUNTRY STRUGGLES TO ESTABLISH AND MAINTAIN DEMOCRACY OR MAINTAIN THEIR INDEPENDENT POLITICAL DEVELOPMENT. THIS IS ESPECIALLY SIGNIFICANT IN LATIN AMERICA AND THE PHILIPPINES.

YOU WILL NOTE THAT THE CHART SHOWS THAT OUR OBJECTIVES WITH THESE COUNTRIES ARE MULTIPLE, AND RELATIONS ARE COMPLEX. WE DO

NOT "BUY" OUR OBJECTIVES WITH THIS ASSISTANCE; IT PERMITS US TO PURSUE THEM, AND FOR THIS REASON STRONG CONTINUITY IS EXTREMELY IMPORTANT. SECURITY ASSISTANCE, ON ITS OWN, CANNOT BRING ABOUT PEACE OR REMOVE THE ORIGINS OF REGIONAL INSTABILITY OR ELIMINATE THREATS FROM SOVIET OR SOVIET-SUPPORTED FORCES. IT CAN, HOWEVER, SHAPE THE BALANCE OF POWER IN SUCH A WAY THAT DIPLOMATIC AND POLITICAL EFFORTS CAN MAKE REAL PROGRESS.



PURSUIT OF OBJECTIVES: THE RECORD
1985

MEDITERRANEAN LITTORAL	QADDAFI DETERRED	NATO BASE RIGHTS RENEWED	WESTERN SAHARA MANAGED	CHAD SUPPORTED
MIDEAST	SYRIA CONSTRAINED	ENHANCED STRATEGIC DIALOGUES	EGYPT-ISRAEL PEACE PRESERVED	
SWA	GULF WAR CONTAINED	ACCESS PURSUED	STABILITY ON HORN	PAKISTAN SUPPORTED
EAST ASIA PACIFIC	SUPPORT TO THAIS	STABILITY OF THE KOREAS	PHILIPPINE SUPPORT-PLAN DEVELOPED	
CENTRAL AMERICA	DEMOCRACY SUPPORTED IN EL SALVADOR	NICARAGUA ISOLATED	HONDURAS AND COSTA RICA STRENGTHENED	
WORLDWIDE	SOVIET CLIENTS CHALLENGED	ALTERNATIVE TO SOVIETS OFFERED	SOVIET AGGRESSION CONTAINED	SUPPORT TO NON-COMMUNIST INSURGENTS

▨ DETERRENCE/PEACE MAINTAINED
▦ CONFLICTS MANAGED OR CONTAINED
▩ DEFENSE COOPERATION/COALITION

CHART 2: PURSUIT OF OBJECTIVES: THE RECORD

I REVIEWED THIS CHART DURING MY TESTIMONY IN 1985. IT SUMMARIZES WHAT OUR SECURITY ASSISTANCE PROGRAM HAD ACHIEVED. THE RECORD SHOWS THAT SECURITY ASSISTANCE PROGRAMS WITH OTHER FOREIGN POLICY TOOLS HAD HELPED ACHEIVE SOME REMARKABLE RESULTS, MOST NOTABLY IN THE AREAS OF DETERRENCE AND CONFLICT MANAGEMENT, AND IN PROMOTING COLLECTIVE SECURITY.

IN 1985 WE HAD PRESERVED DETERRENCE IN AREAS OF POTENTIAL

MAJOR CONFLICTS, SUCH AS THE MIDDLE EAST, SOUTHWEST ASIA, KOREA, AND THE NATO AREA.

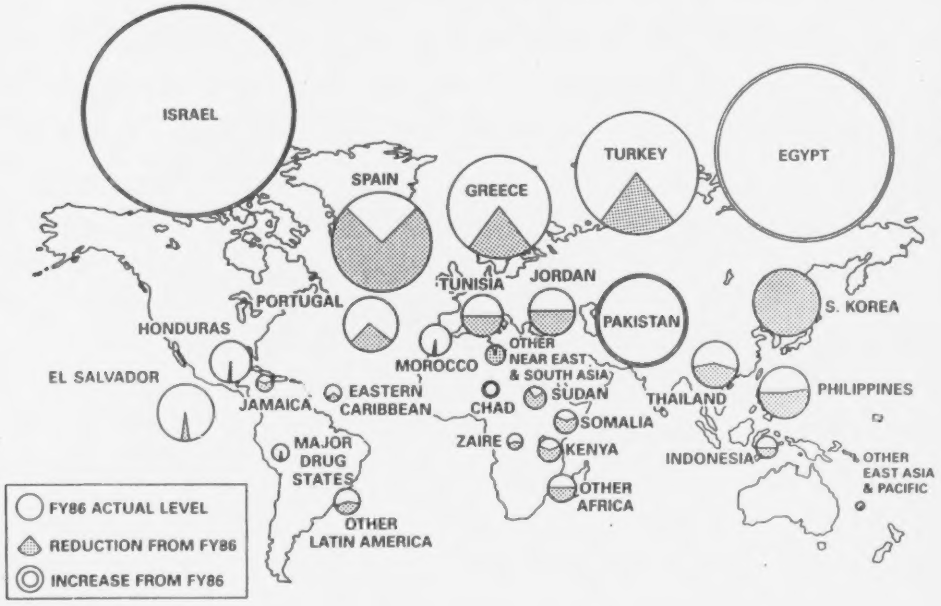
CONFLICTS HAD BEEN SUCCESSFULLY MITIGATED OR CONTAINED IN CENTRAL AMERICA, THE WESTERN SAHARA, CHAD, THE OGADEN REGION BETWEEN ETHIOPIA AN SOMALIA, YEMEN, THE PERSIAN GULF, AND THAILAND. THROUGH OUR ASSISTANCE TO COUNTRIES IN IMPROVING THEIR AIR DEFENSE AND NAVAL PATROLS IN THE GULF, WE CONTRIBUTED TO CONTAINING THE IRAN-IRAQ WAR. CONTINUED LIBYAN ADVENTURISM AND THE INTENSIFICATION OF THE IRAN-IRAQ WAR, HOWEVER, ARE CLEAR SIGNS THAT NONE OF OUR ACHIEVEMENTS ARE FINAL -- ALL REQUIRE CONTINUED VIGILANCE AND INTENSE SECURITY ASSISTANCE EFFORTS.

OUR ASSISTANCE HAD ALSO SIGNALED TROUBLEMAKERS IN THE WORLD THAT THREATS TO THEIR NEIGHBORS WOULD BE MET WITH APPROPRIATE RESPONSES. FOR EXAMPLE, OUR ASSISTANCE TO PAKISTAN WAS A STRONG SIGNAL TO THE SOVIET UNION THAT ITS AGGRESSION IN AFGHANISTAN COULD NOT GO FURTHER. SIMILARLY, OUR ASSISTANCE TO THAILAND HAS BEEN DESIGNED TO SIGNAL OUR FIRM COMMITMENT TO THAT COUNTRY FACING THE THREAT FROM VIETNAMESE FORCES IN CAMBODIA.

WITH THE COOPERATION OF HOST NATIONS, WE HAD IMPROVED THE POSTURE AND DEPLOYMENT OF U.S. FORCES. THROUGH 1985, WE RENEGOTIATED BASE RIGHTS AGREEMENTS WITH ALL FIVE COUNTRIES WHERE A FORMAL RELATION BETWEEN SECURITY ASSISTANCE AND STRATEGIC COOPERATION EXISTS, I.E., PORTUGAL, SPAIN, GREECE, TURKEY, AND THE PHILIPPINES. WE HAD MAINTAINED ACCESS TO FACILITIES IN OMAN, SOMALIA, KENYA, MOROCCO, AND EGYPT. ONE RESULT WAS THAT U.S. FORCES INCREASED THEIR COOPERATIVE EXERCISES WITH LOCAL FORCES, ESPECIALLY IN CENTRAL AMERICA, THE MIDDLE EAST, AND THAILAND.

OUR SECURITY ASSISTANCE PROGRAMS HAD HELPED US TO CEMENT CLOSER RELATIONS AND EXPAND OUR STRATEGIC DIALOGUES WITH TUNISIA, EGYPT, MOROCCO, SAUDI ARABIA, ISRAEL, PAKISTAN, KOREA, JORDAN, AND TURKEY. OUR DIALOGUES WITH THE GULF COOPERATIVE COUNCIL (GCC) STATES WERE BEGINNING TO SLOWLY EXPAND.

AS YOU KNOW, ACHIEVEMENTS THROUGH 1985 WERE THE RESULT OF CONGRESSIONAL SUPPORT AND STEADY INCREASES FOR SECURITY ASSISTANCE FUNDING. THE U.S. AND OUR FRIENDS AND ALLIES HAVE BECOME INCREASINGLY CONCERNED THAT THESE ACHIEVEMENTS ARE BECOMING ENDANGERED AND THE U.S. INTEREST WILL BE ILL SERVED. TODAY, FURTHER REDUCTIONS IN THE SECURITY ASSISTANCE BUDGET SERIOUSLY THREATEN AND UNDERMINE THESE ACHIEVEMENTS. WITH THIS SOBER ASSESSMENT IN MIND, I'D LIKE NOW TO ADDRESS THE SITUATION WHICH IS EVOLVING FROM THE CUTS TO MILITARY AID OVER THE LAST TWO YEARS.



FY87 FMS CREDITS AND MAP
REDUCTIONS FROM FY86 ACTUAL LEVELS

ISRAEL
SPAIN
GREECE
TURKEY
EGYPT
PORTUGAL
TUNISIA
JORDAN
PAKISTAN
S. KOREA
HONDURAS
EL SALVADOR
MOROCCO
OTHER NEAR EAST & SOUTH ASIA
JAMAICA
EASTERN CARIBBEAN
CHAD
SUDAN
THAILAND
PHILIPPINES
SOMALIA
ZAIRE
KENYA
INDONESIA
OTHER EAST ASIA & PACIFIC
MAJOR DRUG STATES
OTHER AFRICA
OTHER LATIN AMERICA
○ FY86 ACTUAL LEVEL
◈ REDUCTION FROM FY86
◎ INCREASE FROM FY86

CHART 3: REDUCTIONS FROM FY86

THIS MAP SHOWS THE WORLWIDE ALLOCATIONS OF THE FY87 APPROPRIATIONS. EACH PIE CHART IS SIZED RELATIVE TO ACTUAL FY86 LEVELS, WHICH THEMSELVES WERE LOWER THAN FY85 LEVELS. FOR A SENSE OF THE SCALE OF THE PIE CHARTS, RECALL THAT ISRAEL REPRESENTS $1.8 BILLION AND ZAIRE ABOUT $7 MILLION. THE

GREEN AREAS REPRESENT INCREASES, WHILE THE RED SLICES INDICATE REDUCTIONS FROM FY86.

EIGHTY-SIX PERCENT OF THE APPROPRIATION WAS EARMARKED FOR FIVE COUNTRIES REQUIRING THE ADMINISTRATION TO MAKE PAINFUL CHOICES FOR THE REMAINING THIRTY-ODD IMPORTANT COUNTRIES DURING THE ALLOCATION PROCESS. THE CHOICE WE MADE WAS TO WORK TO SUSTAIN AMERICA'S FOREIGN POLICY AND DEFENSE STRATEGY TO THE EXTENT WE COULD.

OVERALL, THE EAST ASIA PACIFIC REGION WAS REDUCED BY 70 PERCENT, EVEN THOUGH WE SEE A RAPIDLY GROWING SOVIET MILITARY NAVAL CAPABILITY AND A MAJOR SOVIET BUILD-UP IN THE REGION. ONLY $50 MILLION WAS ALLOCATED TO THE PHILIPPINES DESPITE A CLEAR CONSENSUS BETWEEN THE ADMINISTRATION AND CONGRESS ON THE NEED TO SUSTAIN THE NEW ARMED FORCES OF THE PHILIPPINES. AND THAILAND, WHICH FACES A VIETNAMESE THREAT ON ITS BORDERS AND WHICH HAS STRONG SUPPORT IN CONGRESS FOR ITS POSITION, WAS REDUCED BY 41 PERCENT.

THE SUB-SAHARAN COUNTRIES WERE CUT IN AGGREGATE SOME 55 PERCENT. IMPORTANT ACCESS COUNTRIES ON THE HORN OF AFRICA SUFFERED SEVERE REDUCTIONS. FOR EXAMPLE, SOMALIA, WAS REDUCED ALMOST 61 PERCENT AFTER BEING CUT BY 42 PERCENT THE PREVIOUS YEAR. KENYA WAS ALSO CUT BY ALMOST 61 PERCENT AND SUDAN BY 69 PERCENT. WE CANNOT CONTINUE TO CUT THESE IMPORTANT PROGRAMS WITHOUT EXPECTING DIRE CONSEQUENCES.

TURNING TO NEAR-SOUTH ASIA, ANOTHER ACCESS COUNTRY, OMAN RECEIVED NO CREDITS IN FY87 AND NORTH YEMEN RECEIVED ONLY $1 MILLION. JORDAN, AS YOU KNOW, IS AN IMPORTANT COUNTRY FOR MIDDLE EAST PEACE AND A RELIABLE FRIEND OVER THE LAST THREE DECADES. YET IT WAS REDUCED CONSIDERABLY BELOW THE LEVELS REQUIRED SIMPLY TO SUSTAIN AMERICAN EQUIPMENT--A CUT OF ALMOST 50 PERCENT AND HAS BEEN FORCED TO PROCURE SOVIET SYSTEMS. TUNISIA, LONG A DEPENDABLE FRIEND, AND FACING RADICAL LIBYA, WAS REDUCED

BY 49 PERCENT. MOROCCO, OUR FRIEND FOR 200 YEARS AND ANOTHER ACCESS COUNTRY, NOW HAS A PROGRAM SUBSTANTIALLY BELOW WHAT IT NEEDS TO SUSTAIN READINESS. WE HAVE IMPORTANT INTERESTS IN THIS REGION, BUT WE WERE UNABLE TO APPLY THE NEEDED RESOURCES.

YOU CAN READILY SEE THE SEVERE REDUCTIONS WE HAD TO IMPOSE IN THE SOUTHERN TIER OF NATO. AT THE EARMARKED LEVEL OF $490 MILLION, TURKEY COULD NOT BEGIN URGENTLY REQUIRED AND PLANNED IZATION PROGRAMS. GREECE, TOO, SUFFERED CUTS. WE COULD OFFER SPAIN ONLY $105 MILLION IN CREDITS INSTEAD OF THE COMMITMENT WE HAD MADE TO $400 MILLION. PORTUGAL WAS REDUCED OVER 27 PERCENT, DESPITE OUR ABSOLUTELY CRITICAL NEED TO MAINTAIN A BASE IN THE AZORES.

IN LATIN AMERICA WE WERE ABLE LARGELY TO PROTECT EL SALVADOR AND HONDURAS, BUT THE REST OF THE REGION WAS REDUCED BY 36 PERCENT FROM FY86 LEVELS, WHICH WERE ALREADY TOO LOW.

THE PRESIDENT'S FY 1988 BUDGET REQUEST

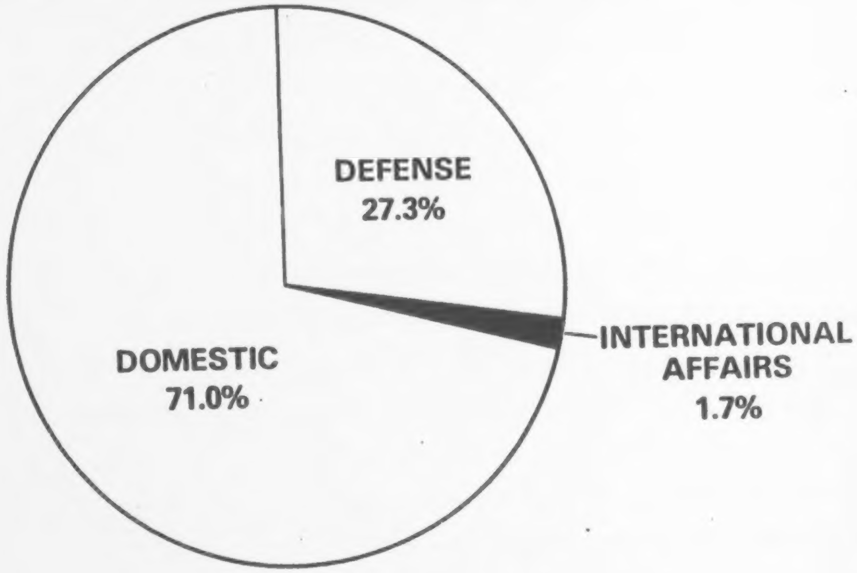


CHART 4

BUDGET HISTORY

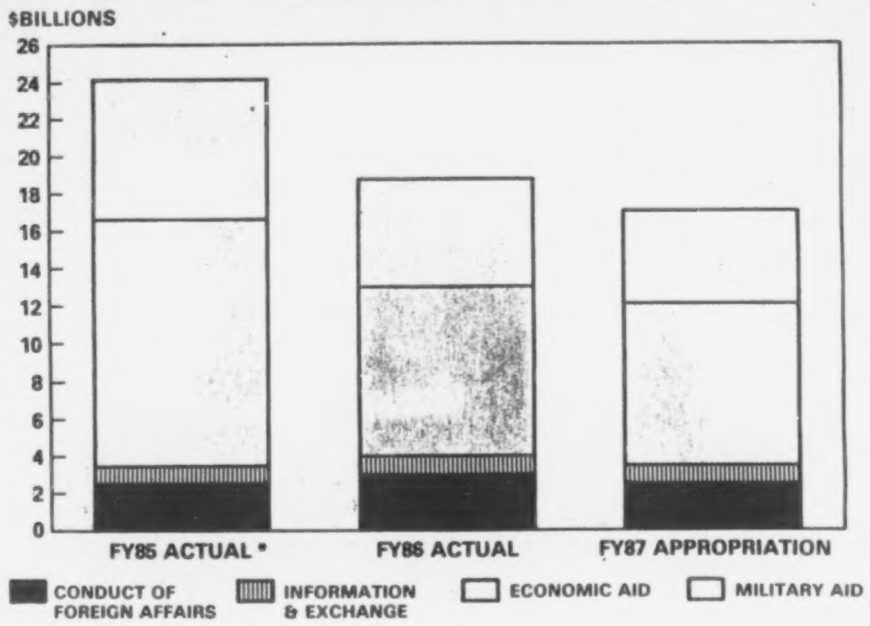
BEFORE GOING ON, I THINK IT WOULD BE USEFUL TO REVIEW OUR BUDGET HISTORY AND TRENDS TO SHOW HOW SECURITY ASSISTANCE, PARTICULARLY THE MILITARY PORTION, COMPARES TO OTHER EXPENDITURES IN THE OVERALL FEDERAL BUDGET.

THE PRESIDENT'S BUDGET. ALL TOO OFTEN THE DEBATE ON HOW TO DIVIDE UP THE PIE OF BUDGET RESOURCES REVOLVES AROUND THE SPLIT BETWEEN DOMESTIC PROGRAMS AND DEFENSE. AS THIS CHART SHOWS, INTERNATIONAL AFFAIRS FUNDING IS ONLY A TINY PROPORTION OF THE TOTAL REQUEST, AND TENDS TO BE SQUEEZED OUT IN THE LARGER DEBATE. CLEARLY, WITHOUT ADEQUATELY FUNDED DOMESTIC PROGRAMS, THE FUNDAMENTAL NEEDS OF OUR SOCIETY AND THE INDIVIDUAL WILL NOT BE MET. AND AN INADEQUATELY FUNDED DEFENSE WOULD NOT ALLOW US TO MAINTAIN OVERALL DETERRENCE NOR CONDUCT SUCCESSFUL FOREIGN AFFAIRS. EACH OF THESE BROAD CATEGORIES OVERLAP AND COMPLEMENT EACH OTHER. SURELY ONE CANNOT BE INCREASED AT THE EXPENSE OF ANOTHER WITHOUT PAYING A PRICE, NOR CAN ONE OF THEM BE UNDULY WEAKENED FOR ALL THREE WILL BE JEOPARDIZED.

ALL THE INTERNATIONAL AFFAIRS FUNCTIONS -- ASSISTANCE PROGRAMS, STATE OPERATIONS, AND INFORMATION PROGRAMS -- CONSUME ONLY 1.7 PERCENT OF THE TOTAL FY88 BUDGET REQUEST. THE MILITARY PORTION OF THE 150 ACCOUNT REPRESENTS ONLY ONE HALF OF ONE PERCENT OF THE FEDERAL BUDGET. THIS IS A SMALL INVESTMENT THAT RETURNS SUBSTANTIAL DIVIDENDS TO THE AMERICAN PEOPLE.

INTERNATIONAL AFFAIRS FUNDING

FY85 - FY87



* INCLUDES $2,258 MILLION ESF SUPPLEMENTAL FOR MIDDLE EAST

CHART 5

INTERNATIONAL AFFAIRS FUNDING: HISTORY. ON THIS CHART, I HAVE PORTRAYED THE BUDGETARY HISTORY OF THE LAST THREE YEARS FOR THE INTERNATIONAL AFFAIRS ACCOUNT. WE HAVE DIVIDED THE BARS, AS YOU CAN SEE, INTO THE BASIC COMPONENTS OF THE CONDUCT OF FOREIGN AFFAIRS, INFORMATION AND EXCHANGE ACTIVITIES, ECONOMIC AID, AND MILITARY AID. I WANT TO MAKE TWO POINTS WITH THE CHART. FIRST, USING FY85 AS A BASE LINE, THE ENTIRE FEDERAL BUDGET INCREASED BY ALMOST TWO PERCENT IN FY87. BY CONTRAST FOREIGN AID WAS REDUCED 29 PERCENT IN FY86 AND BY ANOTHER 11 PERCENT IN FY87. FOR MILITARY ASSISTANCE ITS PORTION OF THE FEDERAL BUDGET WAS REDUCED FROM SEVEN TENTHS OF ONE PERCENT IN FY85 TO ONE-HALF OF ONE PERCENT IN FY87.

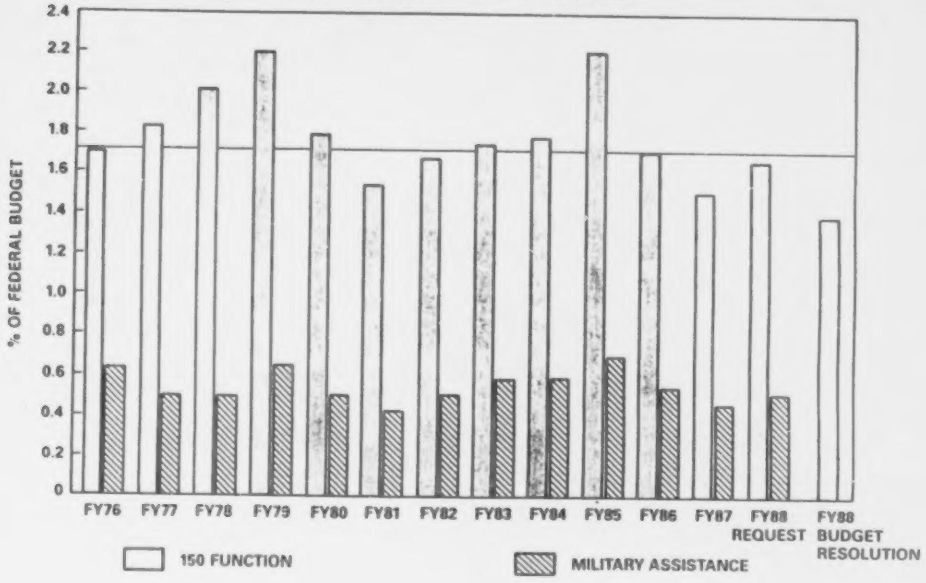

INTERNATIONAL AFFAIRS FUNDING
FY 1976 – FY 1988

CHART 6

INTERNATIONAL AFFAIRS FUNDING: PERCENT. MR. CHAIRMAN, THIS CHART PORTRAYS THE HISTORY OF INTERNATIONAL AFFAIRS FUNDING. EACH BLUE BAR SHOWS THE PERCENT OF THE FEDERAL BUDGET BY WHICH THE INTERNATIONAL AFFAIRS ACCOUNT WAS ACTUALLY FUNDED FROM FY76 THROUGH FY87. WE ALSO SEE THAT OUR FY88 REQUEST MERELY REPRESENTS AN ATTEMPT TO RETURN TO OUR HISTORICAL PROPORTIONATE SHARE OF THE FEDERAL BUDGET -- NOT TO INCREASE IT. IN FACT, THE FY88 REQUEST AT 1.7 PERCENT OF THE FEDERAL BUDGET IS STILL LESS THAN THE AVERAGE OF 1.8 PERCENT FOR THE PERIOD FY76-FY86.

THE BLUE HATCHED BAR REPRESENTS THE OUTCOME OF THE RECENT BUDGET RESOLUTION FOR FY88. THIS SETS INTERNATIONAL AFFAIRS FUNDING AT THE LOWEST LEVEL SINCE AT LEAST 1976 -- 1.4 PERCENT.

THE RED BAR SHOWS THE PERCENT OF THE BUDGET APPROPRIATED FOR MILITARY ASSISTANCE. AS YOU CAN SEE, MILITARY ASSISTANCE HAS BEEN AT ABOUT ONE-HALF OF ONE PERCENT FOR THE LAST TEN YEARS AND IS SO PROPOSED BY THE PRESIDENT FOR FY88.

FOREIGN ASSISTANCE FUNDING
FY 1982 – FY 1988

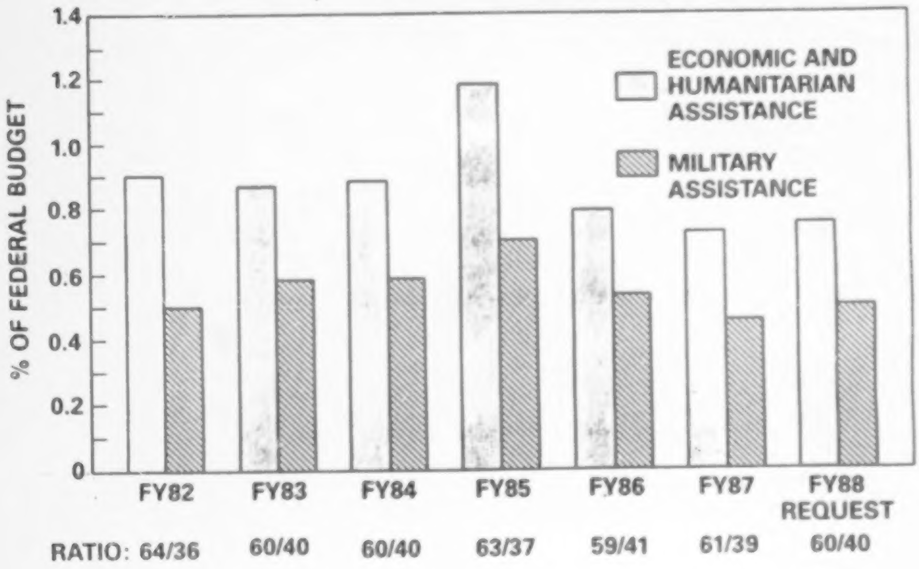


CHART 7

FOREIGN ASSISTANCE FUNDING. THIS CHART REFLECTS THE FOREIGN ASSISTANCE PORTION OF INTERNATIONAL AFFAIRS FUNDING. THE BLUE BAR REFLECTS THE PERCENT OF THE FEDERAL BUDGET USED TO FUND ECONOMIC AND HUMANITARIAN ASSISTANCE FOR EACH YEAR BEGINNING IN 1982. SIMILARLY, THE RED BAR SHOWS THE PERCENT USED TO FUND MILITARY ASSISTANCE. AT THE BOTTOM OF EACH YEAR YOU CAN SEE THE RATIO BETWEEN ECONOMIC AND HUMANITARIAN ASSISTANCE AND MILITARY ASSISTANCE AS APPROPRIATED BY CONGRESS. MR. CHAIRMAN, THIS CHART CLEARLY CONTRADICTS ANOTHER PERCEPTION HELD BY MANY THAT MILITARY ASSISTANCE HAS GROWN AT THE EXPENSE OF ECONOMIC ASSISTANCE. IT HAS NOT.

FMS CREDITS AND MAP
FY 1981 — FY 1988

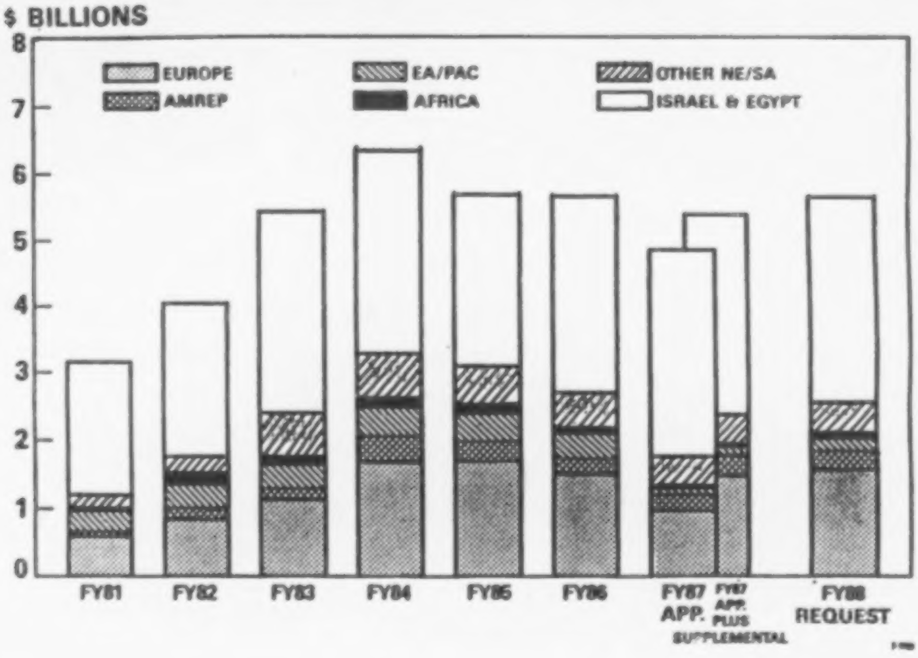


CHART 8

FMS CREDITS AND MAP FY81-FY88. IN THIS CHART WE SHOW THE HISTORY OF MILITARY ASSISTANCE FUNDING SINCE FY81 AND HOW THE PRESIDENT'S BUDGET PROPOSED TO ADDRESS THE SEVERE SHORTFALLS I DESCRIBED, BOTH THROUGH A $1.3 BILLION FY87 SUPPLEMENTAL FOR FOREIGN AFFAIRS, OF WHICH $461 MILLION WAS INTENDED FOR MILITARY ASSISTANCE, AND IN THE BUDGET REQUEST FOR FY88. THE BAR BEHIND THE ONE REPRESENTING THE FY87 APPROPRIATION SHOWS HOW THE FY 87 SUPPLEMENTAL WOULD HAVE CORRECTED THE FY87 APPROPRIATION. OUR PRIORITY WAS TO ADD BACK $50 MILLION TO THE PHILIPPINES AND TO PROVIDE A SIZABLE INCREASE -- $355 MILLION --TO STRENGTHEN NATO. THE CONGRESS, OF COURSE, HAS PROVIDED THE MUCH NEEDED $50 MILLION FOR THE PHILIPPINES, PLUS $300 MILLION IN ESF FOR CENTRAL AMERICA - WHICH, INCIDENTALLY, CAME OUT OF THE DEFENSE BUDGET.

THE FY 88 REQUEST IS IN FACT A MODEST REQUEST SENSITIVE TO

THE TIGHT BUDGET ATMOSPHERE. WHILE IT ASKED FOR $811 MILLION MORE FOR FMS CREDITS AND MAP THAN WE GOT IN FY87, IT IS 13.7 PERCENT LESS THAN THE PRESIDENT'S FY87 REQUEST AND IS APPROXIMATELY THE SAME AS FY86 ACTUAL LEVELS. IT ATTEMPTS TO CORRECT SHORTFALLS IN THE SAME AREAS THAT THE FY87 SUPPLEMENTAL ADDRESSED; THREE-QUARTERS OF THE PROPOSED INCREASE WAS FOR THE NATO SOUTHERN REGION COUNTRIES.

WHILE WE CAN NEVER PRECISELY KNOW HOW MUCH IS ENOUGH TO MEET COUNTRY AND REGIONAL REQUIREMENTS, WE DO KNOW WHERE OUR PRIORITIES LIE AND WE DO KNOW THAT WITHOUT INCREASED FUNDING FOR SEVERAL NATIONS OUR PRESENT PROGRAMS ARE ENTIRELY INADEQUATE. NEARLY THE HIGHEST PRIORITY COUNTRY IS TURKEY.

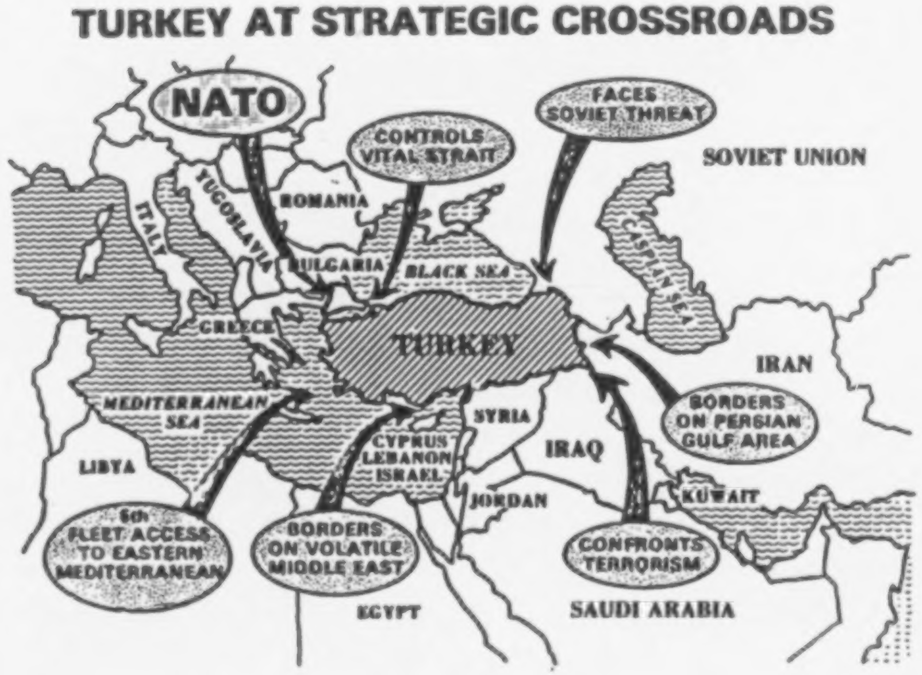

TURKEY AT STRATEGIC CROSSROADS
NATO
CONTROLS VITAL STRAIT
FACES SOVIET THREAT
SOVIET UNION
ITALY
YUGOSLAVIA
ROMANIA
BULGARIA
BLACK SEA
CASPIAN SEA
GREECE
TURKEY
IRAN
MEDITERRANEAN SEA
SYRIA
BORDERS ON PERSIAN GULF AREA
IRAQ
CYPRUS
LEBANON
ISRAEL
LIBYA
JORDAN
KUWAIT
6th FLEET ACCESS TO EASTERN MEDITERRANEAN
BORDERS ON VOLATILE MIDDLE EAST
CONFRONTS TERRORISM
EGYPT
SAUDI ARABIA

CHART 9: TURKEY AT THE STRATEGIC CROSSROADS

TURKEY REMAINS A CENTER OF GRAVITY IN OUR SECURITY ASSISTANCE STRATEGY AND PLANNING EFFORTS. AS YOUR CAN SEE ON THIS CHART, IT IS IN A CRITICAL GEOGRAPHIC SITUATION TO SUPPORT U.S.

INTERESTS AND OBJECTIVES IN EUROPE, SOUTHWEST ASIA AND THE MIDDLE EAST.

AS YOU WELL RECOGNIZE, TURKEY STRENGTHENS NATO'S SOUTHERN FLANK, CONTROLS THE VITAL BOSPORUS AND DARDANELLES STRAITS AND IS CRUCIAL TO U.S. MARITIME OPERATIONS IN THE EASTERN MEDITERRANEAN.

THE CENTRAL THEME OF OUR SECURITY ASSISTANCE EFFORTS REGARDING TURKEY IS MAINTAINING THE MOMENTUM OF THEIR MODERNIZATION PROGRAM TO OVERCOME THE MOST SEVERE OBSOLESCENCE PROBLEM IN ALL OF NATO. WE ESTIMATE THE FY88 COST OF SIMPLY SUSTAINING EQUIPMENT THEY ALREADY HAVE AND CONTINUING ALREADY ESTABLISHED PROGRAMS FOR MODERNIZATION OF THEIR TANKS, NAVAL FORCES AND FIGHTER AIRCRAFT AT $570 MILLION. THIS FIGURE ALLOWS THEM NO NEW MODERNIZATION STARTS.

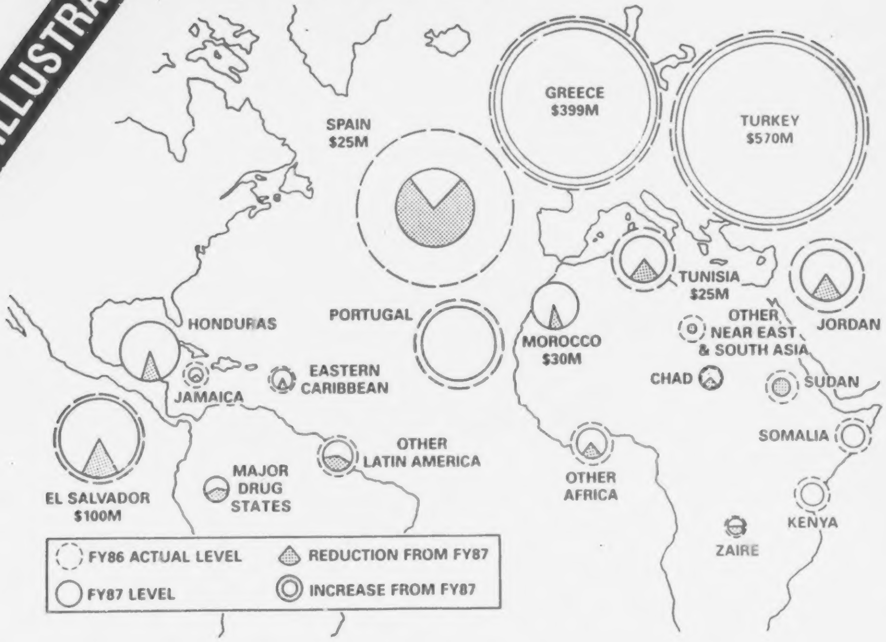
I RECOGNIZE THAT THIS $570 MILLION FIGURE IS WELL ABOVE THE $490 MILLION LEVEL FOR FY1987, A LEVEL WHICH HAD ALSO BEEN PROPOSED FOR EARMARKING IN THE CURRENT DRAFT AUTHORIZATION BILLS. AS I WILL DISCUSS SHORTLY, AT A FREEZE OR REDUCED LEVEL, THIS ADDITION COULD BE ABSOILUTELY CRIPPLING.

IF WE DO NOT FIND A WAY TO INCREASE THE TURKEY PROGRAM TO $570 MILLION, OUR ABILITY TO HELP A CRUCIAL ALLY AND TO INFLUENCE MATTERS WILL BE SERIOUSLY JEOPARDIZED. NOT ONLY WILL TURKEY'S MODERNIZATION, READINESS, AND FINANCIAL SITUATION SUFFER, BUT OUR ABILITY TO INFLUENCE EVENTS IN CYPRUS AND IN THE AEGEAN, TO PRESERVE THE BASES WE HAVE THERE, AND TO EXERCISE INFLUENCE OVER THE PRESERVATION OF DEMOCRACY WILL BE THREATENED. TURKEY, AS YOU KNOW, HAS POSTPONED RATIFICATION OF THE DECA PENDING THE OUTCOME OF THESE FY88 BUDGET DELIBERATIONS.

10 L

ILLUSTRATIVE

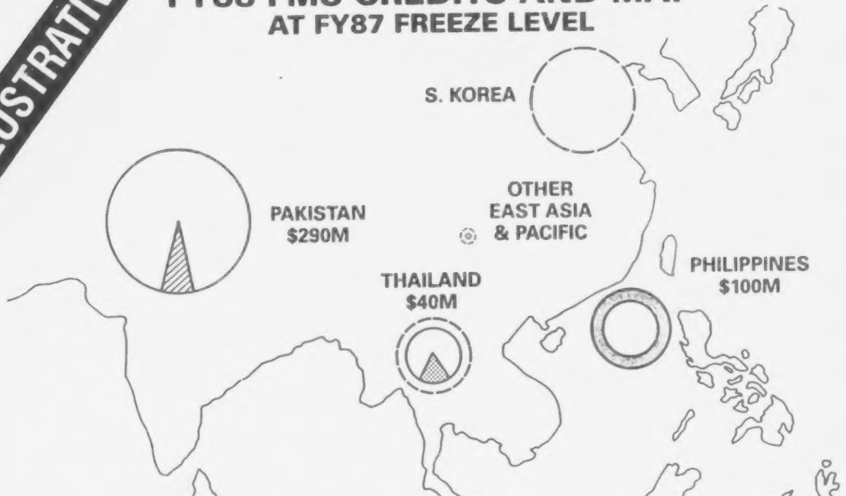
FY88 FMS CREDITS AND MAP
AT FY87 FREEZE LEVEL


GREECE $399M
TURKEY $570M
SPAIN $25M
TUNISIA $25M
JORDAN
PORTUGAL
HONDURAS
MOROCCO $30M
OTHER NEAR EAST & SOUTH ASIA
CHAD
SUDAN
JAMAICA
EASTERN CARIBBEAN
SOMALIA
OTHER LATIN AMERICA
EL SALVADOR $100M
MAJOR DRUG STATES
OTHER AFRICA
KENYA
ZAIRE
FY86 ACTUAL LEVEL
FY87 LEVEL
REDUCTION FROM FY87
INCREASE FROM FY87

10 R

ILLUSTRATIVE

FY88 FMS CREDITS AND MAP
AT FY87 FREEZE LEVEL


S. KOREA
PAKISTAN $290M
OTHER EAST ASIA & PACIFIC
THAILAND $40M
PHILIPPINES $100M
INDONESIA
FY86 ACTUAL LEVEL
FY87 LEVEL
REDUCTION FROM FY87
INCREASE FROM FY87

FY88 ILLUSTRATIVE ALLOCATIONS

CHART 10: L&R

AT FY87 FREEZE LEVELS. AT THIS STAGE, MR. CHAIRMAN, WE SEE THE ACTION OF THE VARIOUS COMMITTEES POINTING TO REDUCTIONS WELL BELOW FY87 LEVELS. WITH THE NEXT TWO CHARTS I WOULD LIKE TO SHOW YOU JUST HOW SEVERE THE COUNTRY IMPACTS WOULD BE IF FMS CREDITS AND MAP ARE FUNDED SIGNIFICANTLY BELOW THE PRESIDENT'S REQUEST.

THESE CHARTS SHOW THE KIND OF FUNDING REDUCTIONS COUNTRIES WOULD HAVE TO SUFFER IF THE FMS CREDIT AND MAP PROGRAMS ARE FUNDED AT THE FY87 LEVEL AND THE MINIMUM REQUIREMENTS OF A FEW OF THE HIGHEST PRIORITY COUNTRIES ARE MET. WE DO NOT SHOW EGYPT AND ISRAEL BECAUSE THE ASSUMPTION IS THEY WILL BE EARMARKED AT REQUEST LEVELS. THAT BEING THE CASE, SHOWING THEM WOULD TEND TO OVERSHADOW THE SMALLER PROGRAMS AND THUS NOT PROVIDE THE REQUIRED VISIBILITY ON OTHER IMPORTANT COUNTRIES. I MUST SAY, HOWEVER, THAT WE HAVE BEEN CONCERNED AS TO THE FUTURE IMPACT OF LAVI ON THE ISRAELI PROGRAM. IT IS OF COURSE, AN ECONOMIC ASSISTANCE PROGRAM, AND OF LITTLE RELATIVE MILITARY VALUE AS THEY COULD PROCURE THE F-16. IF THE PROGRAM CONTINUES WE NEED TO EXAMINE IT FROM THAT STANDPOINT; IF IT IS CANCELLED, WE WILL BE ASSESSING WITH ISRAEL THE DEGREE OF TERMINATION COSTS TO BE COVERED WITHIN THE $1.8 BILLION LEVEL. THE DOTTED BLACK CIRCLES REPRESENT THE FY86 PROGRAM, WHILE THE SOLID BLACK CIRCLES REFLECT THE FY87 PROGRAMS. WHERE NO DOTTED CIRCLE IS EVIDENT, THE DIFFERENCE BETWEEN THE FY86 AND FY87 PROGRAM WAS TOO SMALL TO SHOW ON THIS SCALE. RED SLICES DENOTE POSSIBLE, ILLUSTRATIVE REDUCTIONS IN FY88 FROM THE FY87 LEVEL. GREEN RINGS REPRESENT LIKELY INCREASES FROM FY87 LEVELS.

STRAIGHTLINING THIS YEAR'S OVERALL FUNDING LEVEL INTO FY88 CANNOT RESULT IN A STRAIGHTLINING OF ALL OR EVEN MOST INDIVIDUAL COUNTRY PROGRAMS AT THIS YEAR'S LEVELS; THE INCREASED REQUIREMENTS OF A FEW KEY COUNTRIES WOULD REQUIRE SEVERE REDUCTIONS TO THE OTHER RECIPIENTS.

AS I HAVE ALREADY DISCUSSED, TURKEY REQUIRES $570 MILLION NEXT YEAR, WHICH IS $80 MILLION ABOVE THIS YEAR'S LEVEL, JUST TO CONTINUE ON-GOING MODERNIZATION PROGRAMS AND TO MEET BASIC OPERATIONS AND MAINTENANCE REQUIREMENTS.

IN THIS ILLUSTRATIVE ALLOCATION, GREECE IS ALSO INCREASED TO $399 MILLION.

THE ONLY OTHER COUNTRY INCREASED ABOVE THE ORIGINAL FY87 APPROPRIATION LEVEL IS THE PHILIPPINES, WHICH WAS INCREASED FROM $50 MILLION TO $100 MILLION. THIS IS THE VERY LEAST THE PHILIPPINES REQUIRES IF IT IS GOING TO BE ABLE TO CONSOLIDATE ITS DEMOCRACY WHILE COMBATTING A VIRULENT COMMUNIST INSURGENCY AND BOLSTERING ITS WEAK ECONOMY. I DO NOT THINK THIS COMMITTEE NOR CONGRESS AS A WHOLE QUESTIONS THE IMPORTANCE OF ADEQUATELY FUNDING THE PHILIPPINES, AS DEMONSTRATED BY YOUR RECENT APPROVAL OF $50 MILLION IN ADDITIONAL MILITARY ASSISTANCE FUNDING FOR THAT COUNTRY THIS YEAR.

PAKISTAN IS THE ONLY COUNTRY WE COULD INTENTIONALLY AND SAFELY REDUCE FROM ITS FY87 LEVEL, BRINGING IT FROM $312.5 MILLION TO $290 MILLION. THIS IS THE FIGURE MUTUALLY AGREED TO BY THE UNITED STATES AND PAKISTAN AS PART OF OUR NEW SIX-YEAR ASSISTANCE PACKAGE FOR THAT COUNTRY.

IN THIS ILLUSTRATION AT A FREEZE LEVEL, WE WOULD BE ABLE TO MAINTAIN ONLY THREE COUNTRIES BESIDES ISRAEL AND EGYPT AT THEIR FY87 LEVELS: PORTUGAL, KENYA, AND SOMALIA. THEY ARE ALL IMPORTANT BASE RIGHTS OR ACCESS STATES WHICH SUFFERED SHARP REDUCTIONS THIS YEAR. PORTUGAL REQUIRES AT LEAST $80 MILLION TO CONTINUE HIGH PRIORITY MODERNIZATION PROGRAMS SUCH AS FRIGATE CONSTRUCTION, OUTFITTING ITS NATO BRIGADE, AND IMPROVING THE AIR DEFENSE OF THE VITAL AZORES BASES. FURTHER FUNDING REDUCTIONS WOULD LIKELY PRECIPITATE AN UNFAVORABLE REVIEW OF OUR CRITICAL LAJES AIR BASE ACCESS AGREEMENT IN FY88. SIMILARLY, REDUCTION BELOW FY87 LEVELS FOR KENYA AND SOMALIA WOULD CAUSE FURTHER

SEVERE DAMAGE TO THESE COUNTRIES' ON-GOING PROGRAM AND SUSTAINMENT REQUIREMENTS AND ENDANGER OUR IMPORTANT DEFENSE COOPERATION UNDERSTANDINGS WITH THESE COUNTRIES. BOTH COUNTRIES SUFFERED OVER 60% REDUCTIONS IN FY87.

THE $22.5 MILLION IN SAVINGS FROM THE AGGREGATE FY87 FMSCR/MAP FUNDING LEVEL THAT WE CAN SAFELY REALIZE IN PAKISTAN IS MORE THAN OFFFSET BY THE $130 MILLION OF ADDITIONAL ASSISTANCE REQUIRED FOR TURKEY AND THE PHILIPPINES AND THE FURTHER $56 MILLION GREECE WOULD ACQUIRE VIA THE 7/10 RATIO SHOULD CONGRESS CONTINUE ITS PAST PRACTICE. THE BOTTOM LINE IS THAT ALL THE OTHER COUNTRIES, IN THIS ILLUSTRATION, MUST ABSORB A $163.5 MILLION REDUCTION FROM THEIR FY87 LEVELS EVEN THOUGH THE OVERALL FY88 FMSCR/MAP PROGRAM WOULD BE FUNDED AT THE ORIGINAL FY87 APPROPRIATION LEVEL. THE IMPACT, NOT SURPRISINGLY, IS GRAVE.

IN THIS ILLUSTRATION SPAIN WOULD BE THE WORST HIT. HAVING ALREADY SUFFERED A $278 MILLION CUT IN FY87 FROM ITS FY86 LEVEL, IT MIGHT HAVE TO BEAR A FURTHER $80 MILLION REDUCTION IN FY88. IT IS DIFFICULT TO IMAGINE THAT SUCH A LOW FUNDING LEVEL WOULD NOT ADVERSELY AFFECT OUR ON-GOING BASE NEGOTIATIONS SINCE OUR INABILITY TO MEET COMMITMENTS WILL RAISE OBVIOUS QUESTIONS IN THEIR MINDS AS TO OUR RELIABILITY. ANY JEOPARDY TO OUR BASES THERE WILL HAVE IMPORTANT IMPLICATIONS FOR OUR ABILITY TO CONTRIBUTE TO THE DEFENSE OF NATO'S SOUTHERN FLANK.

FOUR "MIDDLE TIER" COUNTRIES ON THE FRONTLINE OF CONFLICT - MOROCCO, TUNISIA, JORDAN, AND THAILAND - WOULD SUFFER REDUCTIONS RANGING FROM 12% TO 35%, CUTTING SHARPLY INTO THEIR ON-GOING PROGRAM AND SUSTAINMENT REQUIREMENTS. IT COULD BE PARTICULARLY CONSEQUENTIAL TO SUBSTANTIALLY REDUCE MOROCCO WHEN POSSIBLE FURTHER FUNDING REDUCTIONS CAST A SHADOW OVER THE FUTURE OF OUR BASES IN SPAIN, SINCE MOROCCO OFFERS ONE OF THE FEW ALTERNATIVE BASING SITES.

ALMOST ALL OUR PROGRAMS IN AFRICA AND SOUTH AMERICA WOULD BE

REDUCED TO BETWEEN ONE HALF AND TWO AND ONE HALF MILLION DOLLARS PER COUNTRY. SUCH LEVELS, OF COURSE, CAN PROVIDE ONLY LIMITED MILITARY UTILITY, AND WOULD SERVE MOSTLY TO PRESERVE CONTACT IN SUPPORT OF INDEPENDENT AND DEMOCRATIC POLITICAL DEVELOPMENT. OUR OBJECTIVES IN THE MAJOR DRUG PRODUCING/TRAFFICKING COUNTRIES OF THE ANDEAN AND CARIBBEAN REGIONS WOULD BE ESPECIALLY HARD HIT SINCE THESE COUNTRIES REQUIRE SUBSTANTIALLY GREATER ASSISTANCE IF THEY ARE TO HAVE ANY HOPE OF ROLLING BACK THE ILLEGAL AND DESTABILIZING NARCOTICS TRADE. SEVERAL COUNTRIES THROUGHOUT THE WORLD WOULD HAVE TO BE ZEROED OUT, INCLUDING POSSIBLY SUDAN AND YEMEN.

WE WOULD NOT EVEN BE ABLE TO SPARE THE CRITICALLY IMPORTANT PROGRAMS IN EL SALVADOR AND HONDURAS WHERE DEMOCRACY IS AT STAKE FROM CUTS, WITH REDUCTIONS OF ALMOST FIFTEEN AND TEN PERCENT, RESPECTIVELY. THESE PROGRAMS, IN WHICH WE HAVE INVESTED SO MUCH WITH SUCH SUCCESS, CANNOT AFFORD A CONTINUATION OF THIS GRADUAL EROSION WHEN REBEL ACTIVITY IS FLARING UP AGAIN IN El SALVADOR AND NICARAGUA CONTINUES TO INCREASE ITS MILITARY STRENGTH THROUGH GRANT OR LOW COST SOVIET ARMS DELIVERIES VALUED AT $500 MILLION LAST YEAR.

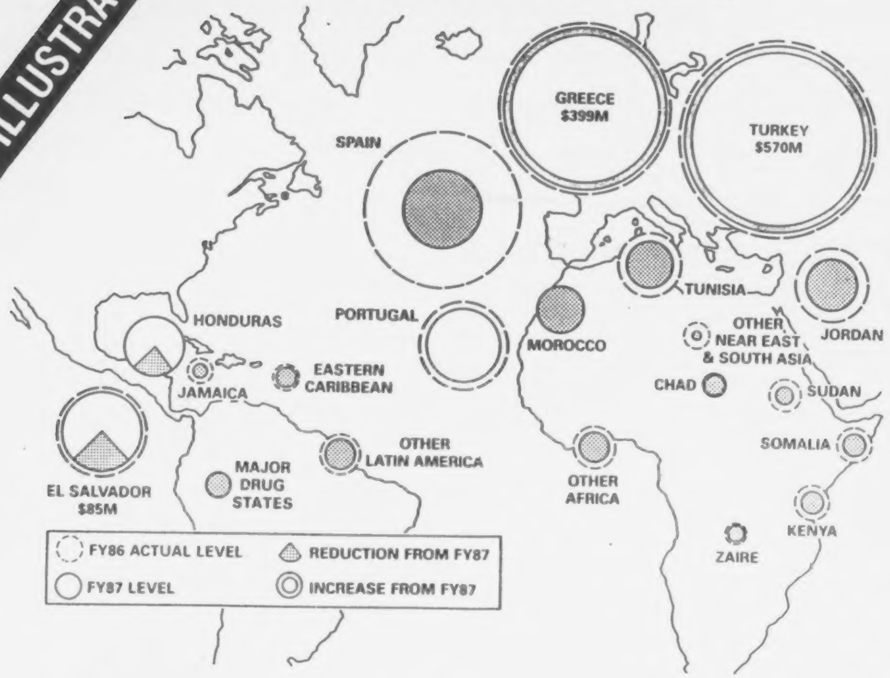
IN SHORT, MR. CHAIRMAN, THE FY87 FUNDING LEVEL HAS BEEN GROSSLY INADEQUATE FOR THIS YEAR'S NEEDS; STRAIGHTLINING IT INTO FY88 MEANS FURTHER CUTS AND FAR GREATER, PERHAPS EVEN IRREPARABLE DAMAGE, ESPECIALLY IN BASE RIGHTS, ACCESS AND DRUG COUNTRIES.

11 L

ILLUSTRATIVE

FY88 FMS CREDITS AND MAP

4.5% REDUCTIONS FROM FY87 LEVEL


GREECE
$399M
TURKEY
$570M
SPAIN
TUNISIA
JORDAN
HONDURAS
PORTUGAL
MOROCCO
OTHER NEAR EAST & SOUTH ASIA
JAMAICA
EASTERN CARIBBEAN
CHAD
SUDAN
OTHER LATIN AMERICA
SOMALIA
EL SALVADOR
$85M
MAJOR DRUG STATES
OTHER AFRICA
KENYA
ZAIRE
FY86 ACTUAL LEVEL
FY87 LEVEL
REDUCTION FROM FY87
INCREASE FROM FY87

11 R

ILLUSTRATIVE

FY88 FMS CREDITS AND MAP

4.5% REDUCTION FROM FY87 LEVEL

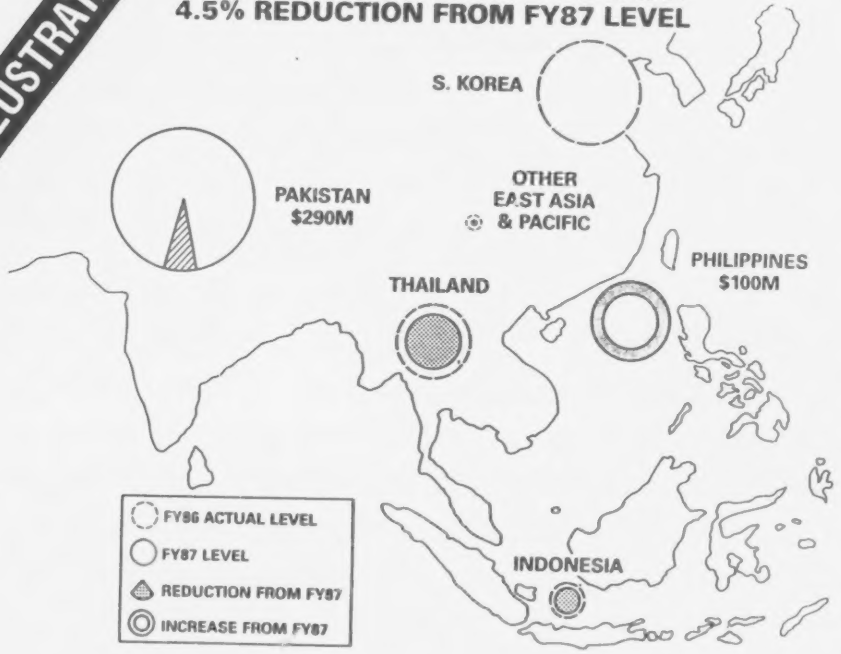

S. KOREA
PAKISTAN
$290M
OTHER EAST ASIA & PACIFIC
PHILIPPINES
$100M
THAILAND
INDONESIA
FY86 ACTUAL LEVEL
FY87 LEVEL
REDUCTION FROM FY87
INCREASE FROM FY87

CHART 11: L&R

4.5% REDUCTION FROM FY 87. I HAVE TRIED TO DESCRIBE HOW OUR FOREIGN POLICY AND DEFENSE STRATEGY WILL BE SERIOUSLY THREATENED AND WEAKENED AT A FREEZE LEVEL. HOWEVER, THE TREND IN CONGRESSIONAL ACTION THUS FAR IS POTENTIALLY FAR MORE DEVASTATING TO U.S. INTERESTS UNLESS IT IS TURNED AROUND. MOREOVER, FURTHER CUTS WOULD EFFECTIVELY CONSTITUTE A REPUDIATION OF MANY OF OUR INTERNATIONAL RESPONSIBILITIES.

THESE CHARTS DEPICT ILLUSTRATIVE COUNTRY IMPACTS OF AN FY88 AGGREGATE FMSCR/MAP PROGRAM THAT IS FUNDED 4.5% BELOW THIS YEAR'S LEVEL. WE CHOSE 4.5% BECAUSE IT IS IN THE MID-RANGE OF VARIOUS PESSIMISTIC ESTIMATES OF THE IMPACT OF THE FY88 BUDGET RESOLUTION ON FOREIGN ASSISTANCE. THE SAME SCALE AND INDICATORS ARE APPLIED HERE AS WERE USED IN THE PRECEDING CHARTS. AGAIN, ISRAEL AND EGYPT ARE ASSUMED TO BE FUNDED AT THIS YEAR'S LEVEL AND ARE NOT SHOWN ON THE CHART.

IT WILL BE MUCH SIMPLER, BUT FAR MORE PAINFUL, TO EXPLAIN THIS CHART'S ILLUSTRATIVE ALLOCATIONS BECAUSE THIS FMSCR/MAP LEVEL ALLOWS FUNDING FOR ONLY NINE OF THE FORTY-FOUR COUNTRIES FUNDED IN FY87 AFTER THE MINIMUM REQUIREMENTS OF LARGER COUNTRY REQUIREMENTS HAVE BEEN MET AND TRADITIONAL CONGRESSIONAL COUNTRY RATIOS HAVE BEEN APPLIED. THIRTY-FIVE COUNTRIES WOULD HAVE TO BE ZEROED OUT, INCLUDING SUCH IMPORTANT BASE RIGHTS/ACCESS AND FRONTLINE STATES AS SPAIN, MOROCCO, TUNISIA, THAILAND, JORDAN, KENYA, AND SOMALIA. BOTH EL SALVADOR AND HONDURAS WOULD HAVE TO BE CUT BY OVER TWENTY PERCENT.

AN AGGREGATE FMSCR/MAP FUNDING LEVEL BELOW THIS YEAR'S LEVEL THUS REPRESENTS WHOLESALE ABANDONMENT OF NEW PROGRAM FUNDING FOR THE GREAT MAJORITY OF OUR MILITARY ASSISTANCE RECIPIENTS, AND THEREBY WILL CLEARLY HAVE AN EFFECT ON OUR ABILITY TO SUSTAIN IMPORTANT RESPONSIBILITIES TO BOTH OURSELVES AND TO THE FREE WORLD AS A WHOLE. SUCH WHOLESALE ELIMINATION OF COUNTRIES FROM

THE PROGRAM WOULD SERIOUSLY ENDANGER OUR KEY BASE AND ACCESS RIGHTS IN THE MEDITERRANEAN LITTORAL AND SOUTHWEST ASIA. IT ALSO GREATLY INCREASES THE LIKELIHOOD THAT CONFLICTS HERETOFORE DETERRED OR MANAGED IN NORTHERN AFRICA, SOUTHEAST ASIA, AND CENTRAL AMERICA COULD BECOME UNMANAGEABLE, PERHAPS EVENTUALLY REQUIRING THE U.S. TO TAKE THE MUCH MORE COSTLY ROUTE OF DIRECT MILITARY INVOLVEMENT. MANY FRIENDS AND ALLIES UPON WHOM WE DEPEND WOULD LIKELY SEE CLEAR EVIDENCE THAT THE WEALTHY AND POWERFUL UNITED STATES EITHER DOES NOT HAVE SUFFICIENT REGARD FOR THEIR FRIENDSHIP AND SUPPORT OR DOES NOT HAVE THE WILL FOR LEADERSHIP OR BOTH. MOST IF NOT ALL OF THEM UNDERSTAND OUR DEFICIT PROBLEM. BUT THE RESULT WOULD UNDOUBTEDLY SEEM INCOMPREHENSIBLE TO BOTH MILITARY AND CIVILIAN LEADERS -- AND THE PEOPLE THEY GOVERN -- LEAVING MANY OF THEM IN A WEAKENED POSITION TO MAINTAIN A HEALTHY RELATIONSHIP WITH THE U.S. AND THE WEST.

LEGISLATIVE PROPOSALS IN APPROPRIATIONS REQUEST

- TRANSFER UNCOMMITTED FMS CREDITS FOR THE PHILIPPINES TO FORGIVEN FMS
- SET IMET REPROGRAMMING THRESHOLD AT $25,000
- ESTABLISH FY88 SDAF OBLIGATIONAL AUTHORITY AT $350 MILLION
- EXTEND SDAF OBLIGATION AUTHORITY TO TWO YEARS

CHART 12: LEGISLATIVE PROPOSALS

BRIEFLY, I'D LIKE TO DISCUSS OUR LEGISLATIVE INITIATIVES FOR

THE FY88 BILL. THE FIRST PROPOSAL ALLOWS US TO IMPROVE OUR FINANCIAL MANAGEMENT AND GET THE MOST DEFENSE FROM AVAILABLE RESOURCES. OUR PROPOSAL IS TO CONVERT UNCOMMITTED FMS CREDITS FOR THE PHILIPPINES TO GRANTS. A PROPOSAL ALONG THESE LINES WAS PASSED BY THE SENATE APPROPRIATIONS COMMITTEE LAST YEAR, BUT DID NOT SURVIVE THE CONFERENCE, PERHAPS BECAUSE IT WAS CAST TOO BROADLY. THE AMOUNT INVOLVED IS ABOUT $29 MILLION IN CREDITS ALREADY APPROPRIATED FOR THE PHILIPPINES. THE PHILIPPINES CANNOT PRUDENTLY TAKE THESE CREDITS NOW, EVEN AT CONCESSIONAL RATES, IN VIEW OF THEIR CURRENT DEBT BURDEN. YET THEY NEED THE FUNDS--AS THEY DID WHEN THEY WERE APPROPRIATED--IN ORDER TO CONTINUE IMPROVEMENTS IN THEIR FORCES. GIVEN OUR WORLDWIDE NEEDS, WE WERE NOT ABLE TO ALLOCATE ENOUGH OF FY1987 FUNDS TO THE PHILIPPINES GIVEN OUR ATTEMPT TO MEET GRAMM-RUDMAN-HOLLINGS TARGETS. THIS PROPOSAL, TOGETHER WITH THE FY1987 SUPPLEMENTAL FOR $50 MILLION, WOULD MAKE UP MUCH OF THE DEFICIENCY IN OUR CURRENT FUNDING FOR THE PHILIPPINES DEFENSE EFFORT.

ANOTHER PROPOSAL FOCUSES ON REPROGRAMMING NOTICES TO CONGRESS FOR THE IMET PROGRAM. RAISING THE THRESHOLD FOR CONGRESSIONAL NOTIFICATION TO $25 THOUSAND WOULD ELIMINATE NUMEROUS TIME-CONSUMING NOTIFICATIONS FOR ACCOUNTING AND COSTING ADJUSTMENTS; PERMIT PROMPT RESPONSE AND REPROGRAMMING EXECUTION OF SMALL, YET IMPORTANT TRAINING PROGRAMS; AND PERMIT MORE EFFICIENT USE OF FUNDS BY ALLOWING DISCRETIONARY REALLOCATION OF YEAR-END SAVINGS WHEN CONGRESS IS IN RECESS. THE INITIATIVE ONLY REDUCES THE NUMBER OF NOTIFICATIONS NOW REQUIRED SOLELY FOR PROGRAM INCREASES OF LESS THAN $25 THOUSAND; IT STILL RETAINS NEW COUNTRY PROGRAM NOTIFICATIONS OF ANY AMOUNT OR FOR LEVELS EXCEEDING THOSE SHOWN IN THE CONGRESSIONAL PRESENTATION DOCUMENT.

FINALLY, WE ARE SEEKING IN THE APPROPRIATIONS BILL LANGUAGE AUTHORITY TO SPEND THE ANNUAL CONGRESSIONALLY AUTHORIZED AMOUNT FOR SDAF OVER A TWO-YEAR PERIOD RATHER THAN IN JUST THE YEAR GRANTED. WE HAVE BEEN HAVING CONSIDERABLE DIFFICULTIES WITH THE

ONE-YEAR LIMIT ON OBLIGATION AUTHORITY; HIGH PRIORITY SDAF BUYS HAVE HAD TO BE POSTPONED OR FOREGONE BECAUSE THE CLOCK RAN OUT AND WE COULD NOT SYNCHRONIZE OUR SDAF EFFORTS WITH THE MILITARY DEPARTMENT PROCUREMENT CYCLES FOR SOME ITEMS. TWO-YEAR OBLIGATION AUTHORITY IS MORE CONSISTENT WITH THE GAO'S RECOMMENDATIONS AND DOD PROCUREMMENT PRACTICES. THIS AUTHORITY WOULD IN NO WAY ENABLE DOD TO EXCEED THE ANNUAL OBLIGATION LEVEL APPROVED BY CONGRESS, BUT WOULD ENABLE MORE EFFICIENT MANAGEMENT OF THIS IMPORTANT AND SUCCESSFUL PROGRAM. ADDITIONALLY, WE SEEK TO ESTABLISH SDAF OBLIGATION AUTHORITY AT $350 MILLION.

THE ISSUE

CAN WE NOT AFFORD TO MAINTAIN INTERNATIONAL AFFAIRS' TRADITIONAL SHARE OF THE BUDGET SO THAT THE U.S. CAN:

- PROTECT THE VIABILITY OF ITS GLOBAL DEFENSE STRATEGIES?
- PRESERVE ITS CRITICAL INTERNATIONAL ECONOMIC TIES?
- PROVIDE THE WORLD LEADERSHIP NECESSARY TO PEACE AND GROWTH?

MILITARY ASSISTANCE IS NOT A GIVE-AWAY PROGRAM, AND IT DOES NOT REALLY ADD TO THE DEFICIT

- MILITARY ASSISTANCE CREATES JOBS, TAX REVENUE, DOD PROCUREMENT AND PERSONNEL SAVINGS, AND USG INTEREST SAVINGS
- 75% OF FY86 FMSCR/MAP APPROPRIATIONS ARE RECOUPED (130% WITH CASH MILITARY SALES)
- IMAGINE THE COSTS OF DEFENDING OUR OVERSEAS INTERESTS WITHOUT THE HELP OF STRONG FRIENDS AND ALLIES?

THE U.S. CAN AFFORD NOTHING LESS THAN TO ADEQUATELY FUND THESE PROGRAMS

CHART 13: THE ISSUE

AMERICAN FOREIGN POLICY, NATIONAL SECURITY AND OUR PRESSING NEED FOR GROWING EXPORT MARKETS DEMAND AN ADEQUATE INTERNATIONAL SECURITY ASSISTANCE PROGRAM. THE FUNDING WE HAVE RECEIVED FOR THE LAST TWO YEARS DOES NOT PROVIDE FOR IMPORTANT U.S. INTERESTS.

TO GET BACK TO A SECURITY ASSISTANCE PROGRAM ADEQUATE TO OUR SECURITY AND ECONOMIC NEEDS WE URGENTLY NEED NOTHING LESS THAN THE FUNDING LEVEL OF THIS YEAR'S PRESIDENTIAL REQUEST.

WHAT ARE THE CONSEQUENCES OF PROVIDING LESS? THEY ARE INDEED PERVASIVE: ANOTHER YEAR OF CUTS MEANS SERIOUS EROSION OF THE HARD WON GAINS WE HAVE MADE SINCE 1980 IN GLOBAL SECURITY, FOREIGN POLICY INFLUENCE AS WELL AS OUR STRUGGLE FOR A MORE FAVORABLE INTERNATIONAL TRADE POSITION. THE DAMAGE MAY INCLUDE:

- o A REAL POSSIBILITY OF THE LOSS OF ACCESS TO A NUMBER OF FRIENDS OF STRATEGIC SIGNIFICANCE, EACH CRITICAL TO THE U.S. IN A REGION OF MAJOR STRATEGIC INTEREST TO US. OUR RELATIONS WITH ALL BASE RIGHTS/ ACCESS COUNTRIES WILL SUFFER IF WE ENTER INTO SUCH SUCH A PERIOD.

- o LOSS OF DEFENSE MARKETS TO FILL LEGITIMATE MILITARY REQUIREMENTS IN A LARGER GROUP OF COUNTRIES, EACH OF WHICH WILL BE DRIVEN TO TURN TO OTHER SUPPLIERS FOR AN INCREASING SHARE OF THEIR MILITARY PROCUREMENTS IN ORDER TO STRENGTHEN THEIR DETERRENT VALUE. MOREOVER, THE SECURITY OF MANY COUNTRIES WILL LIKELY BE JEOPARDIZED LEADING TO LESS ECONOMIC DEVELOPMENT AND RESULTANT LOSS OF TRADE FOR THE U.S.

- o EXTENSIVE LOSS OF CONFIDENCE IN THE U.S. AS A RELIABLE ALLY AND STRATEGIC PARTNER.

- o CONSIDERABLE LOSS OF INFLUENCE AND COMPLICATION OF LONGSTANDING RELATIONSHIPS WITH TRADITIONALLY SOLID ALLIES IN THE SOUTHERN TIER OF NATO, IN THE MIDDLE EAST AND IN SOUTHWEST ASIA--ALLIES THAT ARE ESSENTIAL TO THE STABILITY THAT U.S. STRATEGIC INTERESTS REQUIRE IN EACH OF THESE REGIONS.

TO AVOID THESE DIRE CONSEQUENCES DOES NOT REQUIRE MASSIVE

INCREASES OVER TRADITIONAL LEVELS OF SECURITY ASSISTANCE FUNDING: IN FACT, IT REQUIRES NO INCREASES AT ALL. IF WE RECEIVED THE TRADITIONAL SHARE FOR MILITARY ASSISTANCE IN THE FY88 CONCURRENT BUDGET RESOLUTION, IT WOULD ROUGHLY EQUAL THE PRESIDENT'S REQUEST. ALL WE ARE ASKING FOR IS THE TRADITIONAL PROPORTIONATE SHARE OF THE FEDERAL BUDGET THAT PREVAILED FOR NEARLY A DECADE PRECEDING 1985.

WE DO NOT JUSTIFY MILITARY ASSISTANCE IN ANY WAY AS A U.S. ECONOMIC PROGRAM. BUT AS CONGRESS FACES THE BUDGET PROBLEM, IT NEEDS TO UNDERSTAND THAT MILITARY ASSISTANCE DOES NOT CONTRIBUTE TO THE DEFICIT. THE PROBLEM IS THE MANNER AND RULES OF SCORING RECEIPTS AND OUTLAYS AND TAKING INTO ACCOUNT THE BENEFITS THE U.S. RECEIVES FROM THE PROGRAM. CONSEQUENTLY, THERE OFTEN IS A DISTORTION OF FACTS PRESENTED BY THOSE WHO ARE OPPOSED TO OR FIND IT DIFFCULT TO SUPPORT THE PROGRAM. MILITARY ASSISTANCE IS NOT A GIVEAWAY PROGRAM, AS SOME MISTAKENLY BELIEVE, BUT ONE THAT CREATES JOBS, TAX REVENUES, DOD PROCUREMENT AND PERSONNEL SAVINGS, AND INTEREST SAVINGS TO THE U.S. GOVERNMENT AS THE MONIES APPROPRIATED FOR MILITARY ASSISTANCE ARE SPENT HERE AT HOME (ONLY SEVERAL HUNDRED MILLION DOLLARS ARE SPENT ABROAD, ALMOST ALL OF THAT AMOUNT FOR THE ISRAELI PROGRAM).

FOREIGN MILITARY PURCHASES OF U.S. DEFENSE ARTICLES AND SERVICES IN FY86 CREATED OR MAINTAINED OVER 380,000 U.S. JOBS. THE MAJORITY OF THESE PURCHASES WERE FINANCED WITH FMS CREDITS OR MAP MONIES; THE REMAINING CASH PURCHASES ARE TO A LARGE EXTENT AN OUTGROWTH OF EARLIER OR ON-GOING MILITARY COOPERATION PROGRAMS.

JOBS FOR U.S. CITIZENS AND FIRMS ENHANCE NATIONAL ECONOMIC GROWTH AND GENERATE BILLIONS OF DOLLARS IN ADDITIONAL TAX REVENUES. FOREIGN MILITARY PURCHASES ALSO ENABLE THE U.S. GOVERNMENT TO AVOID COSTS THROUGH THE REALIZATION OF GREATER ECONOMIES OF SCALE IN PROCUREMENT FOR U.S. FORCES. THE AVERAGE BALANCE OF THE FMS TRUST FUND, IN WHICH FMS CREDIT AND MAP MONIES AS WELL AS COUNTRIES' OWN FUNDS ARE DEPOSITED FOR SUBSEQUENT

DISBURSEMENT FOR MILITARY PURCHASES, REDUCES THE AMOUNT OF MONEY THE U.S. GOVERNMENT MUST BORROW TO COVER ITS SPENDING, THEREBY SAVING THE U.S. GOVERNMENT HUNDREDS OF MILLIONS OF DOLLARS IN INTEREST COSTS. IN ADDITION, A SMALL BUT SIGNIFICANT PORTION OF FMS CREDIT, MAP, AND THE FOREIGN FUNDS USED FOR DEFENSE PURCHASES GOES TO REIMBURSING DOD FOR THE COSTS OF ADMINISTERING THE FMS PROGRAM, ALTHOUGH THESE COSTS WOULD TO A LARGE EXTENT EXIST WHETHER THERE WAS AN FMS PROGRAM OR NOT. LAST BUT CERTAINLY NOT LEAST, A SUBSTANTIAL PORTION OF MILITARY ASSISTANCE FUNDS (ABOUT 34% IN FY86 AND 19% IN FY87) ARE EXTENDED ON A LOAN BASIS, AND REPRESENT FUNDS THAT WILL BE REPAID TO THE U.S. GOVERNMENT.

I URGE THE COMMITTEE TO TAKE INTO ACCOUNT THE REALITIES CONFRONTING THE UNITED STATES AS YOU SEEK TO FIND A SOLUTION FOR ADEQUATE APPROPRIATIONS. MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, THE ISSUE IS WHETHER OR NOT THE U.S. CAN AFFORD TO ADEQUATELY FUND THESE PROGRAMS. WE BELIEVE THE UNITED STATES CAN AND MUST AFFORD IT; THE UNITED STATES CAN AFFORD TO DO NO LESS SINCE THESE PROGRAMS SERVE OUR OWN VITAL INTERESTS AND SO MUCH IS AT STAKE.

THANK YOU MR. CHAIRMAN. WE IN DOD WANT TO ASSIST IN ANY WAY WE CAN. I WOULD BE GLAD TO ANSWER ANY QUESTIONS.

MILITARY ASSISTANCE FOR TURKEY

Senator MIKULSKI. Thank you very much, General. I think those graphs really enabled us and the other committee members to follow the rationale of your presentation very well, and you did all that in 15 minutes.

I know that one of the main issues under discussion is Turkey, and I think we will begin with that particular line of questioning.

Mr. Undersecretary, you are requesting the appropriation of $785 million in military assistance for Turkey for fiscal year 1988. These funds are requested in support of the current DECA, Defense and Economic Cooperation Agreement between the United States and Turkey. Is that correct?

Mr. DERWINSKI. Yes, that is basically correct. It is part of the understanding with Turkey.

Senator MIKULSKI. Has DECA been ratified by the Turkish Government?

Mr. DERWINSKI. It has been delayed at this point. In April, based in part on displeasure with this budget process, the Turks delayed ratification. I believe that it was in April.

The problem that we have with Turkey starts with our commitment for a full fledged effort to get the necessary funds that the Turks feel are needed to modernize their military. The technical, let's say, scientific analysis would have us provide them with over $1 billion a year to meet all of their modernization needs.

Realities of the budget and the realities of the congressionally imposed 10:7 ration, obviously work against that. That is something that the Turkish Government finds especially frustrating, and that is at the heart of our complications at the present time.

Senator MIKULSKI. I understand that under the terms of DECA, our President pledges to make his best efforts to obtain resources in support of the agreement. Then the question has to be asked: Is that so, and what is the level of resources the President has tried to obtain, and what are Turkey's responsibilities under DECA?

Mr. DERWINSKI. Our approach is to focus on the political development in Turkey. The Turks have moved from a period of military control to a situation now where they have a very thriving democracy, three major parties competing vigorously for public support. Turkish political leaders are under the same type of public pressure that we understand in any democracy.

The combination of irritants bearing on this include the Armenian Resolution presented not only here in Congress, but also in the European parliaments, the continuing debate over Cyprus, and how that relates to our support of Turkey.

Where we stand, though, is that as far as we are concerned, the DECA Extension Agreement is operative. It is an order. We are continuing to function under it. We are proceeding in good faith. Recently, under the Southern Flank Amendment, we started delivery of equipment to Turkey consistent with that policy.

Overall, I would describe our relations with Turkey as very good, practical, but subject to political pressures that they feel exist.

Senator MIKULSKI. So you feel that Turkey does accept responsibility under DECA and is fulfilling that responsibility?

Mr. DERWINSKI. Yes. Also, I think the General put his finger on it. I was there, incidentally, about a month ago. It was fascinating to me. I didn't know what to expect. I was making an official goodwill call in my new capacity.

Most of our discussion with the Turks involved what they consider their overall border problems. The Soviet Union, obviously, was a major concern. Then, they border on Iran, Iraq and Syria, and their relations, for example, with Syria are less than good at this time. The skirmish areas of Iraq and Iran border on Turkey, and the problems spill over into Turkey. They have major security concerns. Also, the plants where they will be producing the F-16s, they are just starting up.

I was told by our military authorities that overall cooperation is very good.

BASES IN TURKEY

Senator MIKULSKI. This, then, takes me to something else. The justification document indicates that under the terms of our DECA Agreement, the United States has access to military airfields. These are called co-located operating bases or COBs.

Last November, a committee staff member found U.S. equipment and vehicles stored out in the open at Ankara, Turkey. The equipment was subject to corrosion, from the harmful effects of weather. Under DECA, this military hardware was to have been pre-positioned and sheltered at various co-located bases in Turkey. To the committee's best knowledge, these NATO war fighting supplies remain out in the open, with no protection from the weather.

So our question has to be, does this continue and why does Turkey refuse to allow them to be sent to their pre-positioned points and to be placed under protective storage? If their needs are great and they want to cooperate, certainly the equipment should stop sitting out in the rain, and all of those things.

Mr. DERWINSKI. I must confess that I am not at all an expert on military logistical procedure. Perhaps, General Gast can help you.

General GAST. Madam Chairman, I think I understood you to say that the staff visit was last year.

Senator MIKULSKI. Yes, last November.

General GAST. Before they failed to ratify the DECA Agreement.

Senator MIKULSKI. It is still not ratified.

General GAST. I understand that, yes, ma'am.

We have been working with the Turks, our building, the JCS, and now presumably Mr. Gaffney, when he is confirmed, our European Command and our Services, to try to work with them through their laws and their procedures, in order to take care of what we call host nation support, and that is what you are speaking of. Host nation support has to do with facilities and the COBs, and it also has to do with ammunition storage areas, things for trucks, a whole range of things that a host nation should be responsible for.

One of the things that happened with their canceling martial law, and now having an elected government, you have many more people who are playing in this. A real democracy sets up a lot of bureaucracies as well. Now in almost everything that is done in Turkey, of course, the foreign affairs people and others have to do it, and some of it has slowed down.

MILITARY ASSISTANCE TO TURKEY

Senator MIKULSKI. We understand the bureaucracy of the Turkish Government the same way that we can understand our own bureaucracy. But we checked on this in May, and we checked on this in July. They want more money from us. They want $1 billion from us. Yet they won't ratify DECA, and we have allegedly military supplies sitting out in the open.

It is true that they have layers of bureaucracy, and believe me this Senator can understand layers of bureaucracy. It is like trying to put a shovel through cream puffs sometimes. We are sympathetic, but if they have this spirit of cooperation between us, certainly they would want to look out for our supplies and pre-position them if they have all these concerns.

General GAST. I agree with you. Certainly, they have enough old equipment themselves that they ought to be worried about.

I would say, though, since there has been some discussion, of course, about their not going ahead and signing the DECA, just within the last 2 or 3 weeks there have been about seven agreements reached. So I do not see a slow down on the military side or the cooperation on this at all. In fact, there were six agreed to just the other day.

The Turks are very concerned about what is going on in Congress, you know, the Armenian Resolution, the Cyprus Resolution, and the overall foreign aid. There is no doubt about it. But we have not seen that translated into neglect care of our equipment and/or our military relationship, not as yet. I assure you that it is moving along.

Senator MIKULSKI. I would hope that you would keep an eye on that.

General GAST. Certainly, it is in our total interest.

SOUTHERN REGION AMENDMENT

Senator MIKULSKI. I'd like to address the Southern Flank issue, which I know is of concern to all members of the committee. I understand that last year's authorization contained a provision, which came to be known as the Southern Flank clause. I believe that the terms of clause allowed the Department of Defense to provide excess U.S. military equipment at no cost to Greece or Turkey.

Is that a correct understanding, and has the administration made use of that authority?

General GAST. The Southern Region Amendment is the one that I think it is more commonly known as if I may.

Yes, we have used that authority, and we have so notified the Congress, the entire list of things to be transferred to each country. There was a notification requirement. In fact, before we can deliver anything, we must notify Congress and wait, I think, a 30-day period as specified by the law. By the way, it was later adopted by the authorizing committees. The foreign relations authorizing committees as well.

It was not totally at no cost, Madam Chairman. The equipment would be at no cost, but anything that required transportation and/or rehabilitation, over and above that, was at a cost to the Turks or the Greeks, and/or the Portuguese, three countries.

Senator MIKULSKI. Mr. Undersecretary, this provision of excess military equipment to Greece and Turkey under this Southern Region clause could be considered military assistance, couldn't it?

Mr. DERWINSKI. No, I don't think in the sense that it was interpreted by Congress. Basically, what we are doing is turning over to them equipment which is approaching obsolescence. I believe that this is the point that the General had in mind when he made reference to the possible cost of upgrading.

In fact, during this recent trip that I referred to, to Greece and Turkey, in both cases, while they expressed appreciation for the material, they raised the question of the budget impact of upgrading the equipment, specifically tanks in each case.

We think that the program has worked well. It will expire in 1989. The largest beneficiaries were Greece and Turkey. As far as I know, they are both moving ahead in a practical fashion to absorb and utilize the equipment that was provided.

General GAST. The Secretary is quite right, Madam Chairman. There are two purposes, but the primary purpose was to help turn the corner on the growing obsolescence, when you consider that the F–4, which entered our inventory in 1960, is being offered to a country, and it is better than the stuff they have.

Given a NATO ally facing the Soviet Union, we felt, and with the support of the Congress, that we had to find a way to transfer excess, or soon to be excess, equipment to them to help turn that corner, while the F–16's were being produced.

7:10 RATIO

Senator MIKULSKI. I understand, General, but I think that the concern of the committee is that such assistance wouldn't pass under the review of the subcommittee.

In fact, it wouldn't even appear in security assistance finance tables in the congressional presentation. The Southern Region clause would enable the administration to provide assistance to Turkey without reference to amounts provided to Greece, which violates the congressional tradition of assistance to Turkey and Greece based on the so-called "Seven to Ten" ratio. Therefore, what we would like is for the parties involved to report the total amount provided and to view that within the 7:10 ratio.

Mr. DERWINSKI. If I understand your question specifically, it was the application of the 7:10 ratio to the Southern Flank equipment. It was one of the first decisions that I had before me when I assumed that position. I was told by our military experts that one of the practical points was of the different mix of equipment for the respective countries and their respective needs. And that is why the 7:10 ratio wouldn't apply.

May I add, though, the obvious. As a matter of Administration policy, we do not support the 10:7 ratio, primarily because we feel, from an administrative standpoint, that the imposition of a ratio like that adds to our administrative difficulties. Our policy is not to agree with the Congress on the ratio.

Senator MIKULSKI. No, Mr. Derwinski, you know this, we have been colleagues for a long time. It is a congressional tradition.

Mr. DERWINSKI. I know that, and I voted for this, so now I have to live with it.

Senator MIKULSKI. I don't think that we would have had the over-earmark because of exactly the need for flexibility that the General has indicated.

I think my time has expired. We are going to follow the ten-minute rule as closely as we can. I would like to turn to the Senator from Arizona for his questions.

TURKISH TROOPS IN CYPRUS

Senator DECONCINI. Madam Chairman, thank you.

Just quickly to follow up on Turkey and Greece, Secretary Derwinski, you mentioned in your statement that if we need this $570 million commitment that this is going to give us more leverage with Turkey.

It seems to me that we lack a lot of leverage with Turkey now, when our equipment shows up in Cyprus, when they are deploying more troops on Cyprus as well as settlers. We certainly haven't exercised much leverage. In the past years, they have done that, even before the reduction last year.

How do you rationalize that making it $570 million is going to give us any more leverage, and what do you think that this leverage is going to be vis-a-vis Cyprus and the Turkish deployment of over 30,000 troops over there today, maybe as many as 40,000, depending on who you are talking to over there.

Mr. DERWINSKI. Having struggled myself with this issue for years while I was in the House, I understand exactly the frustration that you feel. I don't think that it would be completely accurate to say that our budget request for Turkey is based primarily on leverage on the Cyprus dispute. It is based on our commitment to Turkey's role in NATO, and an understanding that they need modernization.

CYPRUS ISSUE

Senator DECONCINI. I don't want to mislead you. I think that your statement makes reference to the fact that this will help us have more leverage with Turkey, and not on the Cyprus issue specifically. But I am referring to does that leverage count toward the Cyprus issue.

Is that where the leverage is going to be exercised, or are we going to just let the Turks do whatever they damn well please in Cyprus regardless of what our commitment is? That is what it appears to be.

Mr. DERWINSKI. I can't think of another issue dividing two allies that is as complicated and frustrating as the Cyprus issue. In my personal opinion, it is a tragedy. It has dragged on for almost 13 years now, without any seemingly major steps being made to bring about a solution on Cyprus itself.

Nevertheless, we have had constant communication with all the governments involved, the Greek and Turkish Governments, and, of course, the Government of Cyprus. We have kept up the necessary communication with officials of the Turkish side of Cyprus.

Senator DECONCINI. If we fulfill the request here, you don't see that moving Turkey in any direction in Cyprus, either escalating what they have there and de-escalating what they have put there over the last 2 to 2½ years?

Mr. DERWINSKI. The lead at this point is the Cyprus initiative of the U.N. Secretary General.

Senator DECONCINI. So our leverage is not going to apply to Cyprus.

Mr. DERWINSKI. I think to the extent that our aid package gives us this legitimate, on-going NATO relationship with Turkey, there are times, I am sure, where we could quietly bring about at least their willingness to look at it from our angle. But this is becoming an increasingly difficult political issue for them as their political system has evolved and is still realigning. It is not an easy domestic debate for them.

Senator DECONCINI. I know it isn't, Mr. Secretary. I just hope that, whatever our commitment is, our government will take a stronger position with Turkey to reduce its troops, and certainly reduce its advanced weapons and modernized forces on Cyprus, they may need them on the border with Syria, in my judgment.

TERRORISM MEMORANDUM AND GREECE

Now turning to Greece, are we going to apologize for some incident that, from what I read about, our ambassador made some reference to a State Department memo regarding terrorism? Where are we with that particular issue?

Mr. DERWINSKI. On the specific issue itself, if any member of the committee would wish a classified briefing from our counterterrorism office, it is available.

The background, basically, is that we supplied the Government of Greece with specific information that we have, which subsequently became a political debate in the Greek press, something that we did not intend. We thought that this was something that was going to be held within the proper communication between the governments.

It was not so much an issue as, in our eyes, a sharing of information.

Senator DECONCINI. I understand that.

Mr. DERWINSKI. Unfortunately, it has become a hot potato.

Senator DECONCINI. It has, and I am familiar with some of that information. I support our State Department's indications to the Greek Government as to their lack of enforcement and taking a stronger position on terrorism. I hope that we don't apologize.

BASES IN GREECE

I think that it is time that Mr. Papandreou face up to the realities. If he doesn't want our bases there, then we ought to leave. But I think the people of Greece want that relationship with the United States, and he is just playing politics with it. This is just one Senator who is sick and tired of it. I hope that the State Department doesn't put its tail between its legs and apologize for something that we have nothing to apologize for, in my judgment.

Mr. DERWINSKI. May I clarify? This is something that has been especially disturbing because just prior to that we were getting along in a very fine fashion.

I had a meeting with Mr. Papandreou. Subsequently, his foreign minister and Secretary Shultz met in Reykjavik in a bilateral meeting at the time of the meeting of the NATO Ministerial, and they reached a basic understanding to commence the base negotiations. We felt that things were moving especially well.

Then suddenly this issue erupted, and it added a new dimension of political debate that we don't think is healthy to the base negotiations.

Senator DECONCINI. General Gast, I want to compliment you on your fine presentation. Only time restraints permitted us to go through a synopsis of it. It was an outstanding presentation. I understand that this may be your last appearance before the committee.

General GAST. I would come back if I could have more Senators to talk to, sir, if you would reschedule.

ANTI-DRUG PROGRAM

Senator DECONCINI. Okay.

The first chart that you showed us here has a color code here, and one of them is red and it says, "Frontline/Anti-drug."

General GAST. Right.

Senator DECONCINI. What does the "anti-drug" refer to?

General GAST. I think our chart, if I had to do it over again, I would probably put another color in. What we are really talking about is, for example, if you take a look at Latin America, we consider all of Central America as seen by El Salvador and Honduras as frontline. In the "Other Latin America" category we had to include Panama, that would be base rights. The anti-drug is that portion in the Andean countries, for example, Colombia, Bolivia, Equador, and Peru.

Senator DECONCINI. Take Pakistan, for instance, you have the whole country colored in red, which would be frontline/anti-drug. Does it mean that our assistance there is primarily for anti-drug, which I don't think it is.

General GAST. No, sir, our assistance, if I may just address Latin America, first, the Andean countries, is all targeted toward the anti-drug thing and the terrorism that is associated with it. All the military assistance that we need and want to spend, we have agreements with those governments that it will be used for that purpose.

Senator DECONCINI. In Honduras?

General GAST. In Latin America, the Andean countries, for example.

Senator DECONCINI. What about Honduras, you have half of Honduras, half of El Salvador.

General GAST. It means frontline principally there for Honduras and El Salvador, and democracy principally there.

Senator DECONCINI. I think that this is very misleading.

General GAST. I hope that it isn't.

Senator DeConcini. This is my own observation. You have Pakistan as 100 percent frontline/anti-drug. Frontline, I understand, I think. The anti-drug that I don't understand.

General Gast. That is what most of our program is. As I said, if I had to redo it, I would straighten it out a bit. For example, Pakistan does have an anti-drug program, but it is largely through other programs.

Senator DeConcini. Yes, it is, and we have done some things with it. But it leaves you with an impression here that 100 percent of it is frontline and anti-drug, and if you divide that 50/50, it isn't that much.

General Gast. That is right. We will take a look at the congressional presentation.

BASE RIGHTS NEGOTIATIONS

Senator DeConcini. Mr. Secretary, turning our attention to Spain and some of our other base rights negotiations, as well as Portugal, when we are faced with the economic constraints of budgets, and we have negotiations coming up or we are under negotiations, maybe this is already done by you and the State Department, but isn't it wise to negotiate on the basis that we should pay less for the actual base rights, that, in fact, the economic fallout for having us there is substantial?

Secondly, the security of the country is substantially increased by having us there. I feel that we "get had" on many of these base rights agreements. I wonder if the State Department has reassessed, and the fact that you don't get the money may force you to reassess, and negotiate from the basis that this is good for you, such as the Philippines.

I realize that it might cost upwards of $13 billion, perhaps more, if we had to move, but it would be a hell of a loss to the Philippines, both in security and in economic terms. I wonder if that is brought home in our base negotiation, whether it is Portugal, Spain, or the Philippines, Greece, Turkey, or anybody else. Can you comment on that?

PHILIPPINES

Mr. Derwinski. Yes, I would be pleased to. In fact, let me start by specifically relating a debate that Secretary Shultz had with the newly elected Members of the Philippine Parliament.

They raised the issue, or made the charge that they wanted "rental" for the bases. Mr. Shultz told them pointedly that our bases were there for their benefit as well as ours, for our mutual benefit. The reason we have the bases, and the reason they wanted us to retain those bases, was that they and we shared a mutual interest in the security of the region and in their national security. He said, "the moment that we reach the point where we don't think we have the mutual security interests, then we will reevaluate our presence."

Senator DeConcini. I agree.

Mr. Derwinski. That is where we start in each case.

BASE RIGHTS NEGOTIATIONS

Senator DECONCINI. It seems to me that they ought to be paying us to be there. It is our fighting forces that are there on alert. I am pleased to know that this is the tactic, but it doesn't seem to be what comes out in the budget request. We have these base rights agreements and we have to come up with this increased money, and I can understand military assistance for their military purposes, but based on the base right location, I have a hard time with it.

I have some additional questions, Mr. Secretary, which I will ask you, which will require your staff to do a little research on these base right agreements, the economics, and what-have-you. I would like to ask your support if you could get us some information.

Mr. DERWINSKI. We will be happy to give you all of the cost data, as well as one other factor, which I think is quite akin to it. It is the fact that the base rights countries are developing somewhat different patterns. Spain, for example, has a much more, at this point, successful and thriving economy than, say, Portugal. I am sure that this is one of the calculations that we have to make in our final package.

Senator DECONCINI. Thank you, Mr. Secretary, and General Gast.

Thank you, Madam Chairman.

Senator MIKULSKI. Thank you, Senator DeConcini, for your questions.

Following up on Senator DeConcini's questions on Cyprus, Turkey, and Greece, I have a set of questions that I would like to submit, for the record, just on the current state of affairs, who is there and what are they doing, and I would like to have that answered for the record.

I would now like to call on the Senator from Iowa, Senator Harkin.

Senator HARKIN. Thank you, Madam Chairwoman.

I would like to say at the outset that I have a series of questions, Mr. Secretary, which you will probably not be able to answer because they are somewhat detailed. Again, I would hope that your staff would jot them down and get back to me. If my time runs out, I will submit the rest in writing.

Senator MIKULSKI. Certainly.

EL SALVADOR

Senator HARKIN. I would like to focus my comments on another part of the world. I notice that in your statement, Mr. Secretary, you hardly mentioned Central America. More specifically, I would like to focus my comments on El Salvador.

In the past two appropriation bills, I have attached a rider setting aside $5 million in military aid to El Salvador pending progress in the AIFLD case. This was the 1981 murder of two American land reform advisors and Rudolfo Vieva.

To this date there has been no progress. Lieutenant Sibrian, although now in prison for his part in the 1986 kidnapping for hire case, has not been prosecuted for his alleged ordering the killing, while Captain Avila remains free.

Where has the $5 million that I have set aside for each of those 2 years gone? Where did the money go? Was it returned to the Treasury, or was it shifted to another country's account?

Mr. DERWINSKI. We will get you the answer.

Senator HARKIN. I would appreciate that, Mr. Secretary.

[The information follows:]

USE OF EL SALVADOR'S SET-ASIDE MAP FUNDS

The $5 million of El Salvador's MAP funds set aside in fiscal year 1986 were reprogrammed to Honduras' and Guatemala's FMS trust funds in October 1986. Honduras received $1.45 million and Guatemala was given $3.55 million. The $5 million set aside in fiscal year 1987 remains dedicated to El Salvador at this time.

REASON FOR SET-ASIDE FUNDS

Senator HARKIN. I would also like to know if my amendment had the effect of actually reducing El Salvador's military aid for each of the past 2 years, and if the reason for that reduction has been made clear to the Salvadorans?

General GAST. I can only speak to your last question, have the Salvadorans been made aware of the reason why the money was set aside and could only be released under certain provisions of the law known as your amendment. The military certainly are very much aware of it.

We plan with them. In fact, we get together every 6 months on a whole planning exercise about what their requirements and needs are, and it is always pointed out, and they always acknowledge that whatever they were appropriated by Congress, it is going to be several million dollars less unless that case is resolved, and therefore some of their military requirements are not going to be funded. They understand it very clearly.

Senator HARKIN. Has the 1988 request for El Salvador, which I understand is $118 million for military assistance, been inflated to take into account another $5 million set aside?

General GAST. We recognize that this very well may be the case, but the requirement for the $118 million came about through the process that I was trying to describe in my presentation in which I pointed out that the President decided not to go for an increase, but to stay where he was in 1986. It was simply taking a look at our priorities around the world and deciding what we could afford to put where in order to support our policies in El Salvador. We assumed that the $118 million would be required, and hopefully the case to which you refer would be resolved, but we could not be sure of that, of course.

Senator HARKIN. Were any discussions held, or was there anything talked about in your discussions that, well, we had better be prepared for another $5 million set aside?

General GAST. We hoped that the case would be resolved. We felt that $118 million was required. If the case is not resolved, then the amendment takes effect, and they will not get $118 million. In fact, this year, if we consider the effects of the budget resolution, they are not going to get $118 million, they are going to get far less, and so is everybody else.

Senator HARKIN. Since 1981, the United States has sent El Salvador nearly $800 million in military aid alone.

General GAST. Yes, sir.

Senator HARKIN. Currently, the total aid package, including economic support funds, averages more than $400 million. This year we will provide $439 million for El Salvador.

I might just point out, Madam Chairman, that this $439 million for El Salvador, in military and economic support, compares to $563 million for all of Africa. Yet we are sending $439 million for only El Salvador. I just can't imagine that.

Senator MIKULSKI. It is just the size of Massachusetts.

Senator HARKIN. This points out a real inequity.

Despite this aid, I hear discouraging news from El Salvador that President Duarte has lost the support of his base, the labor movement, and that the government and the Christian Democratic Control has been charged with corruption.

According to General Blandon, the Salvadoran Chief of Staff, the government has been losing the political war against the guerrillas. That incidents such as the April 1 raid on El Paraiso, which resulted in the death of one American, and that these raids still occur, demonstrating that the FMLN still has the capability of waging quick strikes against significant military targets.

All of this is going on after all of this time and effort, after all of the money that we have sent there and after all the military and economic support that we have put in there.

CONTINUED SUPPORT FOR EL SALVADOR

Mr. Secretary, how long do you see the United States supporting El Salvador and at what levels?

Mr. DERWINSKI. The level might be a result of the budget process. May I direct myself to the broader point?

So far as I am able to determine, we have every reason to believe that President Duarte still has substantial political and economic support in El Salvador. He is wrestling with monumental problems after the political and diplomatic complications he has suffered. The country has also suffered from the effects of an earthquake which further added economic pressure.

Given what I think is the evolution of the democratic process, and with it, unfortunately, a very sharp political debate in the midst of an ongoing guerrilla war, we think that the basic foundation of democracy in El Salvador is strong. When President Duarte leaves office, people will turn the presidency over to a civilian, freely elected by the public, I think, in the spirit and the philosophy that would merit our continued support.

Senator HARKIN. I hope you are right.

I have a couple of other questions that will point out my feeling in that regard. If, in fact, we continue to pour the money into the military in El Salvador, without demanding that they shape themselves up, and that they make their individual officers accountable for some of their actions, then we see the same old specter, that the military still runs the country and Duarte is just a figurehead.

If we are really interested in having a strong civilian government, freely elected by the people, which I am sure you are, as we all are, then we have to make it well known to the military that we can't condone the AIFLD murders, and the fact that despite all the evidence in this case, the Salvadorans have not brought to justice those who ordered the killings.

We just had the recent kidnapping for hire case that broke last spring.

General GAST. Senator, may I comment, please?

Senator HARKIN. Yes.

General GAST. Thank you.

I have been working in one capacity or another with the military for 7 years in El Salvador.

Senator HARKIN. For 7 years?

General GAST. Yes, sir, and in this job for 5 years.

I honestly believe that with the election of President Duarte, and even before that, at the time when the Congress was satisfied that there was a democratic policy that it could support in El Salvador, which was demonstrated in many ways, the military has performed very professionally.

Their interest in our discussions with them, and in working with them, is to try to get this national reconstruction plan going, because they know that the future of El Salvador and the security of El Salvador depends upon the political and economic and judicial process. We find hardly any abuses, if any abuses, in their system, and in their approach to things. I am sure that someone will find an example somewhere in there.

Senator HARKIN. You find absolutely no abuses in their system in the military?

General GAST. You mentioned one, of course, earlier.

Senator HARKIN. I can mention a couple more.

General GAST. I believe that they are very strongly in support of democracy and do not wish to have any abuses. They know that the future of El Salvador is at stake across a broad range of things that include not only the military, but the political and the judicial.

Senator HARKIN. I agree that there may be some in the military like that.

General GAST. The leadership.

Senator HARKIN. Quite frankly, when you see things like the kidnapping for hire case. Lieutenant Colonel Staben has been cited by those involved in the case. He has been exonerated and released. The whole case has been stalled.

We don't even know where Lieutenant Cyprian is now, and a whole bunch of other officers who were suspects. I can list you the names of other officers who are suspects in the case. Ramos Zacapa, Carlos Zacapa, a cousin of his, Major Jiminez, have all been involved in this case. Yet nothing ever happens, nothing; it just continues to roll along.

What I am saying is that we are pouring in a lot of money into that military. We are trying to support a freely elected democratic government. To the extent that despite the fact the military continues to commit these abuses, we continue to pour the money in, then it sends a signal to the Salvadorans that we are more interested in pursuing the military option and the war than in insuring civilian and democratic rule in El Salvador.

Madam Chairwoman, I understand my time is up. I have some other questions. The last one I have, if I could just have your indulgence, is a very quick question. I have some that I want to submit in writing to the Under Secretary.

FORMER HONDURAN GENERAL AND DEFENSE DEPARTMENT CONSULTATION FEE

My last question regards Honduras. There was a piece in the Washington Post on May 10 regarding a former General Alvarez, who was ousted as the head of the Honduran military in 1984. He received more than $50,000 in Defense Department consulting work during the past 2 years. As I understand, part of it was just an interview that DOD did with him. He is now living in the United States, of course.

I wrote to the Defense Department with a number of questions in a May 22 letter. I have yet to hear back from the Secretary of Defense on my questions. My question for you is: Was the State Department consulted before these contracts were awarded to Alvarez? Was the State Department contacted or consulted at all?

Mr. DERWINSKI. I will have to have this researched and I will provide you with an answer.

Senator HARKIN. I am sure you will.

Mr. DERWINSKI. As I sit here, I am personally not familiar with the matter.

Senator HARKIN. I understand that, and that is why I asked the question.

General GAST. I would prefer not to address it in any particular detail. I apologize for the fact that you have not received an answer, but there are other Members of Congress who have been responded to, and I will make sure that you receive an answer as well.

Senator HARKIN. I wrote on May 22, and I have not received a response. If you would just let me know on that.

General GAST. I will.

Senator HARKIN. Were you consulted, and are you aware of the content of the work done by General Alvarez, and could you provide me with any additional information regarding the contract and what work he did.

General GAST. I will see to it that it is provided, yes, sir.

[The information follows:]

STATE DEPARTMENT ROLE IN ALVAREZ CONTRACT

Under Secretary of Defense Ikle replied to your letter on July 6. Specifically, in answer to your question as to whether the State Department was consulted in connection with the employment of General Alvarez by a Defense contractor, I can tell you that the Department was indeed consulted. The State Department, however, was not in a position to approve or disapprove his employment. Rather, we provided nonbinding advice on the foreign policy implications of the proposed relationship between Alvarez and a DOD contractor. More specifically, the Department communicated informally to the Department of Defense our judgment that General Alverez's employment by the DOD contractor would not have a negative effect on the United States' overall relationship with Honduras.

COMMUNICATION WITH CONGRESS

Mr. DERWINSKI. Madam Chairman, I would like to make one point in answer to Senator Harkin.

One of the things that I have noticed in my service in the State Department is what I consider a lack of effective communication with the Congress. At least in running my own office, I have tried to respond immediately and in as much detail as I am allowed.

I think that you are entitled to whatever information we can get for you. It may well be that from time to time, on these delicate issues, we will want to provide it in a classified manner, but this is something that we will want to negotiate with you. As far as I am concerned, you are entitled to and should receive expeditious and full information, and to the extent that I can have any impact on it, this is the way that we will handle it.

COMMENT ON UNDER SECRETARY DERWINSKI

Senator HARKIN. Thank you.

Madam Chairwoman, I just want to say, for the record, that in all my years in the other body where I served with the Secretary, when he was a Congressman, I always found him to always be a gentleman. Sometimes we fought together on the same side, and sometimes not on the same side of issues, but I always found the Secretary to be intellectually keen on the issues dealing with foreign aid, and also to be very forthcoming, very honest and above board. I appreciate that, and I know he does the same kind of service in his new position downtown.

CENTRAL AMERICA

Senator MIKULSKI. Thank you.

Senator Harkin, your questions on Central America were right on point. They are many of the ones that I had myself. I will submit to you some additional questions about the Perlman/Hammer murder, and the efforts being made to bring people to justice.

PHILIPPINES

I would like to move on, in the interest of time, to continue to other questions related to military assistance and drawdown authority. We are going to focus on the Philippines.

506(A) ASSISTANCE TO THE PHILIPPINES

Mr. Under Secretary, on September 16, 1986, the President used his special authority under 506(a) of the Foreign Assistance Act to direct the provision of emergency military assistance to the Philippines up to a total of $10 million.

The authorities of 506(a) are to be used only if there is an unforeseen emergency, and if the emergency requirement cannot be met by any other means, other than the emergency drawdown of our U.S. defense stocks. This takes me to the question on the Philippines.

What is the total amount of assistance which has been provided to the Philippines under the emergency drawdown?

Mr. DERWINSKI. I will turn that over to General Gast, because he was involved in that and I wasn't.

General GAST. Madam Chairman, the 506(a) justification and determination was for $10 million, and we are speaking of the medical package, I presume.

Senator MIKULSKI. We are speaking of what?

General GAST. The emergency medical assistance for the Philippines.

Senator MIKULSKI. How much has been delivered?

General GAST. The $10 million has been accounted for. Of that some medical supplies was almost $6 million, blankets and bedding, $1.3 million, training, $200,000. We have to account for and charge for all the transportation, packing and handling, and that was over $2 million for a total of $10 million. The last has been delivered.

DELIVERY OF EMERGENCY ITEMS

Senator MIKULSKI. When were the emergency items delivered, General?

General GAST. They began almost immediately. There was a shipment of them right away for some $2 to $3 million, and they arrived very quickly. The Filipinos, however, were very much aware of the $10 million amount, and when they heard of the high cost of the transportation, which we have to charge by law, the law stipulates how we will account for things, they decided that they would not accept any more by air unless it was absolutely necessary, because it turns out that the C-5 flight to the Philippines from the United States is a little more than $200,000 just to pay for the airplane, and that is the way we have to count it.

Senator MIKULSKI. So the Philippine Government was not sure that this was an emergency?

General GAST. I think that they were sure that it was an emergency.

Senator MIKULSKI. We were funneling it under 506(a) which is meant to be an emergency draw down fund.

General GAST. Yes, ma'am. I think they thought that it was an emergency, and they very much appreciated the assistance, but they decided that if it was going to amount to only $10 million, and they could not count on a supplement or any other action, they decided that they had to spend the money prudently or rather give us guidance, because we spend the money and not they.

EMERGENCY SUPPLIES TO PHILIPPINES

Senator MIKULSKI. General, it goes to the consultation that we have about what they consider an emergency and what we consider an emergency. The question is: Were we just trying to throw money out there, or did the Philippine military really have an emergency need, and did we sweat the details?

I understand that we delivered Arctic sleeping bags.

General GAST. To answer your question, we thought that there was an emergency. They thought that there was an emergency. I still believe that there was, and that they are very grateful that they received this assistance.

There was the incident of giving the wrong thing on the wrong airplane because the supplies for the Philippines were co-located in an area where there happened to be some supplies for some other country. In the haste of getting on board and underway, somebody picked up the wrong thing and put it on the wrong airplane, but it came back and we straightened it out. We were not doing that just to fill up the airplane, I assure you.

Senator MIKULSKI. We can understand that. We all want Mrs. Aquino to succeed, and she has severe challenges.

General GAST. She does.

Senator MIKULSKI. The question is: What do we make available to her and out of what accounts? This was the draw down authority based on emergency criteria. We have a cable here which suggests that food service equipment was offered to the Philippines, and that the United States military in the Philippines asked that you rethink the criteria for emergency.

Did the Pentagon offer food service equipment in response to this emergency? Is that what they felt they needed?

General GAST. I don't know that there was food service equipment on there, Madam Chairman. There may have been, I don't know. I may have to call for another expert here in this hearing today.

We were convinced, as we were in El Salvador, that there was a crying need in their military for medical equipment and medical services. We found in so many countries, where they are fighting insurgencies, as they were in El Salvador, that if we didn't provide medical supplies and very quickly that it would have the exact opposite effect from what we intended upon the morale and, in fact, the behavior of the military, if they could not care for their own injuries and diseases. For this reason medical aid was important to us.

We were in a period of military reform at that time in the Philippines. We were in a period when we wanted more support for the soldier. The new officers there were not going to be corrupted, that they were actually going to care for that. We had the results of a survey, and we determined that it was absolutely urgent to get that equipment there. I think that it has paid off in large dividends, I mean the casualties, the dying. It means that officers are taking care of their men.

I can trace down to see if somehow or other food service equipment got in there. I will also say, though, under this provision of the law, of course, it must come from DOD stocks, we cannot procure it. We cannot go out for new procurement. We do not have any money from Congress to replenish that. It has to come off the shelves and out of the warehouses, and that, of course, is going to take some selective work to go into that to be sure that we can meet the Filipinos' urgent needs without having even a minimum negative effect upon our readiness. If food service equipment was included, my guess is that there was a good reason, but I am not able to answer that specific question.

[The information follows:]

FOOD SERVICE EQUIPMENT IN SECTION 506(A)

No food service equipment was provided under the section 506(a)- for emergency medical aid to the Philippines.

EMERGENCY CRITERIA

Senator MIKULSKI. General, I just want to bring to your attention that your own Joint Military asked the military back here, our Pentagon, to rethink the criteria of emergency related to these things.

The 506(a) was not meant to be a discretionary fund to respond to foreign leaders who we favor as another form of foreign aid.

General GAST. We understand that, yes, ma'am. There are clear reasons why the Department of Defense would exercise care in using 506(a). One of them is that we would not want to lose the authority, because we believe that it is needed. We believe that the President needs that flexibility.

Senator MIKULSKI. I believe that the President needs that authority, but it is not meant to be an annex or an auxiliary to a foreign aid program.

General GAST. I agree with that.

Senator MIKULSKI. It is not meant to be a discretionary fund for that response.

General GAST. Another reason why the Department of Defense exercises care in using 506(a) is that the military departments are not paid back.

Senator MIKULSKI. That is right.

General GAST. The Defense Department is not being paid back, so we are not very likely to try to meet an emergency requirement when we know that we have not had an appropriation from Congress to go out and procure any equipment and services that might not be available.

Senator MIKULSKI. The Philippines, also, is an example in this draw down. There are authorizations to be appropriated to the President to reimburse an applicable appropriation fund or account for these kinds of articles, but nobody is making these kinds of requests either.

General GAST. They haven't in the last year or two. One of the reasons that we haven't is that the budget guidelines have been very low in order to try to meet the deficit. Also we quit about a year or two ago because the Congress had absolutely a deaf ear, and we found absolutely no sympathy in the Congress for reimbursing the Department of Defense for 506(a). In fact, for many years, there was a line item in the budget asking for that, but there was absolutely no sympathy for the aid, and we are very mindful of that.

Senator MIKULSKI. There might be sympathy within the Congress if we didn't feel that it was used to pump money out in a quick hurry to show a response.

I can only continue to reiterate our overall support for Mrs. Aquino, the enormous economic challenges, and the kinds of insurgency she is facing in her own country.

General GAST. That is right.

Senator MIKULSKI. You are a military man. You know what she needs. She needs a quick response team of adequately trained people. From what I know about you, you are a soldier's soldier; you would want the medical supplies, that is the exact kind of thing you would want, which I think is the way to respond.

General GAST. Madam Chairman, I believe that the $10 million bought more for the Philippines armed forces than anything else we could have done, because it was used in conjunction with other medical assistance that was sent out there to go to the civilians. I believe that there was an emergency. I think your concern is whether we were too liberal in using it or not.

Senator MIKULSKI. That you did not have a firm set of criteria. I would never accuse you of being too liberal. [Laughter.]

PREPARED STATEMENT

Mr. DERWINSKI. Madam Chairman, as part of my background material here, I have a statement made by Karl Jackson, Deputy Assistant Secretary of Defense for East Asia and the Pacific, before the House East Asian and Pacific Affairs Subcommittee. It has five or six pages related to just that, the broader issue that you are addressing, the specific use of 506(a).

I would like to leave this with you. It will be useful to your staff in analyzing this entire issue.

Senator MIKULSKI. Thank you. We welcome the information and, without objection, we will put it in the record.

[The statement of Mr. Jackson follows:]

STATEMENT OF

KARL D. JACKSON

DEPUTY ASSISTANT SECRETARY OF DEFENSE
(EAST ASIA AND PACIFIC AFFAIRS)

MR. CHAIRMAN, IT IS A GREAT PLEASURE TO APPEAR ONCE AGAIN BEFORE THIS SUBCOMMITTEE TO DISCUSS U.S. POLICY TOWARD THE PHILIPPINES. LET ME SAY AT THE OUTSET THAT NEITHER OUR INTERESTS NOR OUR POLICY HAVE CHANGED. THE PHILIPPINES CONTINUES TO BE AN EXAMPLE OF DEMOCRACY IN ACTION, A VALUED ALLY AND CLOSE FRIEND OF THE UNITED STATES. WE SUPPORT WITHOUT RESERVATION THE GOVERNMENT OF PRESIDENT AQUINO AND ARE COMMITTED TO AIDING THE ARMED FORCES OF THE PHILIPPINES (AFP) OF WHICH SHE IS COMMANDER-IN-CHIEF. WE FEEL A SPECIAL KINSHIP WITH THE AFP, DERIVING FROM AN INTIMATE MILITARY-TO-MILITARY RELATIONSHIP EXTENDING OVER MANY, MANY YEARS. IT IS THIS STRONG FEELING FOR THE PHILIPPINES AND ITS ARMED FORCES THAT HAS BROUGHT DEFENSE WITNESSES BEFORE THIS AND OTHER COMMITTEES OF THE CONGRESS TO SPEAK CANDIDLY ABOUT THE SITUATION IN THAT COUNTRY AND TO URGE THAT SPECIAL CONSIDERATION BE GIVEN TO THE NEEDS OF THE AFP, EVEN AS WE RECOGNIZE THE BUDGETARY CONSTRAINTS ON U.S. ASSISTANCE OVERSEAS. I AM HERE TODAY ON BEHALF OF THE SECRETARY OF DEFENSE TO REITERATE THAT COMMITMENT AND TO RENEW OUR URGENT PLEA FOR HELP FOR AN ALLY BESET BY MANY PROBLEMS NOT UNCOMMON TO A DEVELOPING NATION, BUT PROBLEMS EXACERBATED IN THE PHILIPPINES BY A VIRULENT COMMUNIST INSURGENCY.

THE COMMUNIST INSURGENCY: 100 DAYS AFTER THE CEASEFIRE

NEITHER DRAMATIC DEVELOPMENTS NOR IDENTIFIABLE SHIFTS IN INSURGENT TRENDS HAVE OCCURRED SINCE ASSISTANT SECRETARY ARMITAGE TESTIFIED IN MARCH. GUERRILLA STRENGTH ESTIMATES ARE UNCHANGED. NPA ACTIVITY APPEARS TO CONTINUE APACE, BUT NO RELIABLE DATA ARE AVAILABLE ON WHICH TO ASSESS WHETHER THE GUERRILLAS HAVE BECOME

MORE AGGRESSIVE. THE LATEST CASUALTY FIGURES PROVIDED TO THE MEDIA BY GENERAL RAMOS SHOW 1,121 DEATHS IN INSURGENCY RELATED VIOLENCE BETWEEN 1 JANUARY AND 15 MAY. THESE DATA ARE DIFFICULT TO INTERPRET BECAUSE THE FIRST FIVE WEEKS OF 1987 CONSISTED OF A CEASEFIRE IN WHICH BOTH SIDES AVOIDED CONFLICT. IT IS PROBABLY SAFE TO CONCLUDE, HOWEVER, THAT THE NUMBER OF DEATHS IN 1987 SINCE THE END OF CEASEFIRE REPRESENTS AN INCREASE IN INSURGENT-RELATED VIOLENCE AND THAT THE CURRENT LEVEL IS HIGHER THAN 1986, BUT LOWER THAN THE LAST YEAR OF THE MARCOS REGIME WHEN AN AVERAGE OF 14 PERSONS DIED EACH DAY.

THESE TRADITIONAL NUMERICAL "MEASURES" OF THE INSURGENCY ARE OFTEN THE ONLY CONCRETE INDICATORS AVAILABLE AND WE THEREFORE CITE THEM IN OUR EFFORT TO PROVIDE A "SENSE" OF THE INSURGENCY. THE RELIABILITY OF ENEMY "BODY COUNTS" AND THE PROBLEM OF WHOM TO COUNT IN THE GUERRILLA ORDER OF BATTLE, HOWEVER, MAKE THESE STATISTICS INHERENTLY RISKY AS ANALYTICAL TOOLS FOR IDENTIFYING SIGNIFICANT TRENDS. MORE IMPORTANTLY, THE FOCUS OF TRADITIONAL INDICATORS ON THE MILITARY COMPONENT OF THE INSURGENCY DIVERTS ATTENTION FROM THE LESS VISIBLE, BUT MORE SIGNIFICANT INSURGENT EFFORT TO ESTABLISH DE FACTO POLITICAL CONTROL IN THE COUNTRYSIDE. THE NUMBERS CAN DISTORT OR MASK THE POLITICAL NATURE AND OBJECTIVES OF THE CPP AND ITS MILITARY ARM, THE NEW PEOPLE'S ARMY. FOR EXAMPLE, MUCH OF THE CPP'S INITIAL GROUNDWORK IN RURAL AREAS IS NON-MILITARY IN NATURE, CONSISTING OF POLITICAL AND ORGANIZATIONAL ACTIVITY. IT WOULD THEREFORE BE A MISTAKE TO ASSUME THAT QUIESENCE IN A PARTICULAR RURAL AREA RESULTS FROM A DECLINE IN NPA STRENGTH OR ACTIVITY. INDEED, THE VERY OPPOSITE COULD BE TRUE.

THE NUMBERS NOTWITHSTANDING, AS A RESULT OF THE REVOLUTION THE CPP HAS BEEN WEAKENED AND CONTINUES TO SUFFER POLITICALLY AT THE NATIONAL LEVEL AND IN ITS UNITED FRONT EFFORTS. ELECTION RESULTS DEMONSTRATE THAT THE VOTE-DRAWING POWER OF THE CPP IS NOT HIGHLY DEVELOPED. INSURGENTS DO NOT, HOWEVER, COME TO POWER VIA THE BALLOT BOX AND TRENDS IN THE COUNTRYSIDE ARE AMBIGUOUS. OTHER THAN ANECDOTAL ACCOUNTS OF POPULAR RESISTANCE AND THE

APPARENT SUCCESS OF VIGILANTE GROUPS IN THE DAVAO AREA, THERE IS LITTLE EVIDENCE THAT THE PARTY'S OVERALL STRENGTH AT THE GRASSROOTS-LEVEL HAS ERODED. VILLAGE-LEVEL EXPANSION EFFORTS APPARENTLY CONTINUE WITH SOME SUCCESS. WE LACK HARD EVIDENCE THAT THE POPULARITY OF THE NATIONAL GOVERNMENT, AS OPPOSED TO PRESIDENT AQUINO'S PERSONAL POPULARITY, HAS OBSTRUCTED THE PARTY'S TRADITIONAL VILLAGE-LEVEL BASE. ALTHOUGH LOCAL FLUCTUATIONS IN THE INSURGENTS' MASS BASE HAVE UNDOUBTEDLY OCCURRED, IT IS DIFFICULT TO DETERMINE THE EXTENT TO WHICH THE SIZE OF THE MASS BASE MAY HAVE CHANGED.

THE AQUINO ADMINSTRATION'S OVERWHELMING VICTORIES IN THE CONSTITUTIONAL PLEBISCITE AND LEGISLATIVE ELECTIONS REPRESENT YET ANOTHER POLITICAL SETBACK FOR THE CPP, BUT DO NOT NECESSARILY INDICATE AN EROSION OF THE MASS BASE. IT REMAINS TO BE SEEN WHETHER POPULAR SUPPORT FOR PRESIDENT AQUINO, OR FOR THE CONSTITUTION OR HER CONGRESSIONAL CANDIDATES, WILL TRANSLATE INTO ANTI-CPP SENTIMENT AT THE LOCAL LEVEL, WHERE THE INSURGENTS ARE MOST DEEPLY ENTRENCHED AND WHERE POLITICAL AND SOCIO-ECONOMIC CONDITIONS HAVE YET TO IMPROVE SIGNIFICANTLY.

PHILIPPINE COUNTERINSURGENCY EFFORTS

OUR VIEWS ON THE EFFORTS OF THE PHILIPPINE GOVERNMENT TO CONTEND WITH THE COMMUNIST INSURGENCY DERIVE FROM SEVERAL SOURCES. THE FIRST -- AND MOST IMPORTANT -- BASIS FOR OUR VIEWS IS OUR CONVERSATIONS WITH PHILIPPINE GOVERNMENT OFFICIALS AND MILITARY OFFICERS. THE UNITED STATES AND THE PHILIPPINES HAVE BEEN ALLIANCE PARTNERS FOR MORE THAN 40 YEARS. OUR MILITARY-TO-MILITARY RELATIONSHIP EXTENDS EVEN FURTHER. WE VALUE HIGHLY THE ABILITY TO SPEAK FREELY AND CANDIDLY WITH OUR PHILIPPINE ALLY, AND WE LISTEN CLOSELY TO WHAT PHILIPPINE OFFICERS AND OFFICIALS TELL US.

WE HAVE LISTENED CAREFULLY TO WHAT PHILIPPINE GOVERNMENT AND MILITARY LEADERS HAVE TOLD US ABOUT THE SECURITY SITUATION. THEY FULLY RECOGNIZE THAT THE INSURGENCY IS A COMPLEX PROBLEM AND THAT IT MUST BE ADDRESSED AND RESOLVED. FROM THE OUTSET PRESIDENT

AQUINO MADE CLEAR HER INTENT TO COMBAT THE INSURGENCY THROUGH THE RESTORATION OF DEMOCRATIC INSTITUTIONS, THE REINVIGORATION OF THE ECONOMY, AND RECONCILIATION WITH THOSE PREVIOUSLY ALIENATED FROM THEIR GOVERNMENT. SHE MADE EQUALLY CLEAR HER WILLINGNESS TO USE MILITARY MEANS AGAINST THOSE WHO CHOOSE TO REMAIN OUTSIDE THE LAW AND SEEK CHANGE BY FORCE AND INTIMIDATION. SHE ALSO PLANNED TO USE THE INTERVAL, DURING WHICH RECONCILIATION WAS ATTEMPTED, TO REORGANIZE AND REFORM THE ARMED FORCES THAT THEY MIGHT BE BETTER ABLE TO PERFORM COUNTERINSURGENCY MISSIONS.

LET ME REITERATE WHAT I AND OTHER DEFENSE REPRESENTATIVES HAVE SAID BEFORE: PRESIDENT AQUINO'S APPROACH TO THE PROBLEM OF COMMUNIST INSURGENCY IS HER OWN, A FILIPINO RESPONSE TO A FILIPINO PROBLEM.

THE NEW CONSTITUTION APPROVED IN FEBRUARY PROVIDED THE FRAMEWORK FOR A RETURN TO DEMOCRACY, AND THE NEW CONGRESS ELECTED LAST WEEK PROVIDED THE INSTRUMENT FOR EXPRESSING THE PEOPLE'S WILL. THE HIGH VOTER TURNOUTS IN BOTH THE PLEBESCITE AND THE CONGRESSIONAL ELECTION DEMONSTRATED THE EXCITEMENT AND VITALITY OF PHILIPPINE DEMOCRACY. MOREOVER, THE OVERWHELMING ENDORSEMENT OF THE CONSTITUTION AND PRESIDENT AQUINO'S CANDIDATES FOR CONGRESS CONFIRMED ONCE AGAIN THE DEEP-ROOTED PERSONAL SUPPORT WHICH SHE, AS A POPULARLY ELECTED PRESIDENT, COMMANDS. IN SHORT, PRESIDENT AQUINO IS DOING WHAT SHE SAID SHE WOULD DO TO RESTORE DEMOCRATIC INSTITUTIONS IN THE PHILIPPINES. THE NEXT, AND PERHAPS MOST SIGNIFICANT, STEP IN THIS PROCESS WILL BE LOCAL ELECTIONS WHICH ARE PLANNED FOR AUGUST. COLLECTIVELY, THESE ACTIONS WILL PROVIDE THE FRAMEWORK FOR DEMOCRACY WHICH IS A NECESSARY PRECONDITION FOR THE SUCCESS OF A NATIONAL COUNTERINSURGENCY PROGRAM.

PRESIDENT AQUINO HAS ALSO MADE SIGNIFICANT STRIDES IN REVITALIZING THE PHILIPPINE ECONOMY. SHE AND HER ECONOMIC ADVISORS HAVE LABORED LONG AND HARD TO REMOVE THE IMPEDIMENTS TO ECONOMIC GROWTH AND TO ESTABLISH AN ENVIRONMENT IN WHICH THE CREATIVE ENERGIES OF THE FILIPINO PEOPLE CAN FLOURISH. RECENTLY, THE FIRST INDICATIONS OF ECONOMIC TURN-AROUND APPEARED. WHILE PHILIPPINE

LEADERS CONCEDE THAT THE ECONOMY HAS A LONG AND DIFFICULT PATH TO TRAVERSE, THEY ARE ENTHUSED BY THE PROGRESS TO DATE. PRESIDENT AQUINO IS DOING WHAT SHE SAID SHE WOULD DO TO BEGIN THE TREK TOWARD PROSPERITY THROUGH ECONOMIC GROWTH AND DEVELOPMENT. HER ECONOMIC POLICIES ARE INTENDED TO CREATE THE HEALTHY AND ROBUST ECONOMY WHICH IS ALSO A CONDITION FOR THE SUCCESS OF A NATIONAL COUNTERINSURGENCY PROGRAM.

WE HAVE ALSO LISTENED WITH RESPECT AND ADMIRATION TO PRESIDENT AQUINO'S IMPASSIONED CALL FOR NATIONAL RECONCILIATION. THE LEADER OF A TRULY DEMOCRATIC NATION MUST, OF COURSE, MAKE EVERY EFFORT TO RESOLVE DOMESTIC DIVISIONS BY PEACEFUL MEANS. PRESIDENT AQUINO IN GOOD FAITH PROVIDED THE COMMUNISTS AN OPPORTUNITY TO TASTE PEACE DURING THE CEASEFIRE AND AN OPTION TO REJOIN PHILIPPINE SOCIETY UNDER THE AMNESTY PROGRAM. HER GOVERNMENT IS NOW ESTABLISHING THE MECHANISM TO ATTRACT AND REHABILITATE THOSE WHO CHOOSE TO PARTICIPATE IN THE PEACEFUL RECONSTRUCTION OF THE NATION. PRESIDENT AQUINO RECOGNIZES THE VITAL IMPORTANCE OF THIS PROGRAM AND IS COMMITTED TO ITS SUCCESS. SHE WILL NEED THE HELP OF PHILIPPINE OFFICIALS -- CIVILIAN AND MILITARY -- TO MAKE IT WORK BECAUSE A NATIONAL RECONCILIATION PROGRAM OPERATING IN THE COUNTRYSIDE IS ANOTHER PREREQUISITE FOR AN EFFECTIVE COUNTER-INSURGENCY PLAN.

FINALLY, WE HAVE LISTENED CAREFULLY TO WHAT GOVERNMENT AND MILITARY OFFICIALS HAVE TOLD US ABOUT THE NEED FOR STABILITY AND REFORM IN THE ARMED FORCES. JUST AS PRESIDENT AQUINO INHERITED MASSIVE PROBLEMS IN THE PHILIPPINES' POLITICAL AND ECONOMIC SYSTEMS, SO TOO DID SHE ACQUIRE A MILITARY WHOSE PROFESSIONALISM HAD BEEN ABUSED AND RESOURCES DEPLETED. THE AFP HAS MADE SIGNIFICANT CHANGES DURING THE PAST 15 MONTHS. IT HAS EMERGED FROM THIS DIFFICULT AND CONFUSING PERIOD WITH A NEW SENSE OF PRIDE AND MISSION AND IT HAS BECOME A MORE EFFECTIVE ARMED FORCE.

CHIEF AMONG THE IMPROVEMENTS HAVE BEEN ...

-- THE RETURN OF MORE PROFESSIONAL SENIOR LEADERSHIP;

-- A MORE REGULARIZED PROMOTION AND ASSIGNMENT SYSTEM, WHICH HAS PRODUCED A HIGHER CALIBER OF FIELD COMMANDERS;

-- GREATER EMPHASIS ON TRAINING, WITH THE ESTABLISHMENT OF A NEW AFP TRAINING CENTER AND REVITALIZATION OF THE ARMY'S TRAINING COMMAND;

-- A STRENGTHENED MILITARY POSTURE IN THE FIELD, ACHIEVED BY REDUCING HEADQUARTERS STAFFS, DEPLOYING FORCES INTO THE RURAL AREAS THREATENED BY THE COMMUNISTS, ADDING NEW COMBAT ELEMENTS THROUGH INTERNAL ALIGNMENTS, AND MODIFYING AN UNWIELDY NATIONAL COMMAND STRUCTURE TO INCREASE OPERATIONAL FLEXIBILITY; AND

-- MORE IMPORTANCE GIVEN TO DISCIPLINE AND CIVIL-MILITARY RELATIONS, RESULTING IN A PERCEPTIBLE DECLINE IN HUMAN RIGHTS ABUSES.

THESE REFORMS -- LIKE THOSE TO THE POLITICAL AND ECONOMIC SYSTEMS -- WERE A NECESSARY PRECONDITION FOR THE AFP TO PREPARE FOR ITS ROLE IN A NATIONAL COUNTERINSURGENCY EFFORT. MANY FILIPINOS DOUBTED THAT PRESIDENT AQUINO AND HER GOVERNMENT COULD EFFECT THE CHANGES WHICH THEY HAVE. MANY DOUBTED THAT THE AFP COULD REBOUND THE WAY IT HAS. THE DEMOCRATIC FORCES IN THE THE PHILIPPINES HAVE DEMONSTRATED AN IMPRESSIVE VIBRANCY AND RESILIENCY. THEY HAVE NOW ESTABLISHED THE GROUNDWORK TO PROCEED AGAINST THE COMMUNIST THREAT TO THEIR NEWLY WON DEMOCRACY.

TWO MONTHS AGO I TOLD ANOTHER HOUSE SUBCOMMITTEE WHAT EXPERIENCE SUGGESTS: THAT THE INSURGENCY CANNOT BE DEFEATED BY MILITARY MEANS ALONE. AFP LEADERS AGREE. THEY HAVE CALLED FOR A FILIPINO SOLUTION WHICH RECOGNIZES THAT INSURGENCY IS PRIMARILY A POLITICAL PHENOMENON ROOTED IN ECONOMIC AND SOCIAL INEQUITIES. NATIONS WHICH HAVE CONTENDED SUCCESSFULLY WITH INSURGENCY HAVE TAUGHT US THAT THE ROLE OF FORCE IS SECONDARY TO THAT OF COORDINATED POLITICAL, ECONOMIC, AND SOCIAL REFORM. TECHNOLOGICAL SOLUTIONS, AIR MOBILITY AND FIREPOWER, HAVE NEVER WORKED EXCEPT IN COMBINATION WITH A WILLINGNESS ON THE PART OF CIVIL AND MILITARY AGENCIES TO REMAIN IN REBEL AREAS OVER TIME, THERE TO UNDERTAKE THE PAINSTAKING PROCESS OF CREATING NEW LOYALTY BONDS AMONG THOSE PREVIOUSLY

ALIENTATED FROM THE NATIONAL GOVERNMENT. IN THIS CONTEXT, ACCURATE INFORMATION AND EFFECTIVE LOCAL GOVERNMENT ARE OFTEN AS IMPORTANT AS WEAPONS IN COPING WITH INSURGENCY. MOREOVER, AGRARIAN REFORM, ENHANCED RURAL ECONOMIC OPPORTUNITY, AND A CREDIBLE SYSTEM OF JUSTICE CAN INSURE THAT THE SALUTARY EFFECTS OF THE COUNTER-INSURGENCY CAMPAIGN WILL BE PERMANENT, THAT THE INSURGENCY WILL NOT RISE AGAIN WITH THE NEXT GENERATION.

PHILIPPINE LEADERS' HAVE ALSO RECOGNIZED THAT THE AFP MUST NECESSARILY PROVIDE THE SHIELD FOR ELEMENTS OF THE CIVILIAN GOVERNMENT TO OPERATE EFFECTIVELY IN THE COUNTRYSIDE. THIS REQUIRES THE ABILITY TO PERFORM BASIC MILITARY MISSIONS -- TO MOVE, SHOOT AND COMMUNICATE -- IN A PROFESSIONAL MANNER. IT ALSO REQUIRES THE DISCIPLINE AND ABILITY TO PERFORM THOSE SPECIALIZED MILITARY FUNCTIONS ASSOCIATED WITH COUNTERINSURGENCY OPERATIONS. THE AFP HAS THE LEADERSHIP, SKILL AND TALENT TO ACHIEVE THESE CAPABILITIES. WHAT IT LACKS, FRANKLY, ARE CRITICAL FINANCIAL RESOURCES. IT WILL DRAW FROM THE PHILIPPINE PEOPLE THE WILL TO ACCOMPLISH ITS MISSIONS, BUT IT MUST DRAW FROM THE UNITED STATES -- ITS TREATY ALLY AND SOLE SOURCE OF MILITARY AID -- THE EQUIPMENT AND TRAINING NEEDED TO PROTECT AND DEFEND THE POPULATION.

THE ROLE OF U.S. SECURITY ASSISTANCE

THE SUBCOMMITTEE ASKED ME TO ADDRESS THE ROLE OF U.S. SECURITY ASSISTANCE, RECOGNIZING THAT QUESTIONS HAVE ARISEN RECENTLY IN SOME QUARTERS CONCERNING THE CREDIBILITY OF OUR COMMITMENT TO THE PHILIPPINES. LET ME CLEAR THE AIR, IF I MAY. WE HAVE DELIVERED 200% MORE MILITARY EQUIPMENT TO THE PHILIPPINES IN THE PAST 15 MONTHS THAN WE DID IN THE PREVIOUS TWO YEARS. DELIVERIES INCLUDED MOBILITY EQUIPMENT AND SPARE PARTS, COMMUNICATIONS EQUIPMENT, AND INDIVIDUAL CLOTHING AND EQUIPMENT. DURING THE REMAINDER OF THIS FISCAL YEAR, WE PLAN TO DELIVER 150 MORE 2 1/2 TON TRUCKS AND 20 DUMP TRUCKS, TO ADD TO THE FLEET OF 665 TRUCKS WHICH WE HAVE DELIVERED SINCE PRESIDENT AQUINO ASSUMED OFFICE. ADDITIONALLY, WE WILL BEGIN A MAJOR OVERHAUL OF PHILIPPINE NAVY PATROL CRAFT.

PRESIDENT AQUINO MADE A SPECIAL REQUEST FOR ADDITIONAL HELICOPTERS. BOTH THE UNIQUE GEOGRAPHY OF THE PHILIPPINES AND THE SPECIAL CHARACTER OF COUNTERINSURGENCY WARFARE DICTATE THE NEED FOR A MODICUM OF TACTICAL AIR MOBILITY. THE AFP REQUIRES HELICOPTERS TO REACH AREAS WHICH DIFFICULT TERRAIN MAKES INACCESSIBLE BY ROAD, TO EVACUATE SICK AND WOUNDED SOLDIERS, AND TO RESPOND RAPIDLY TO COMMUNIST ATTACKS ON GOVERNMENT FACILITIES AND FORCES. WE EXPECT TO DELIVER 10 ADDITIONAL HELICOPTERS BY JUNE 12TH. LET ME ADD, PARENTHETICALLY, THAT THE U.S. ARMY DOES NOT HAVE UH-1H HELICOPTERS SITTING ON THE SHELF. TO MAKE 10 HELICOPTERS AVAILABLE TO THE AFP REQUIRED DIVERSION FROM OTHER INTENDED USES. THAT WE DID DO SO INDICATES THE STRENGTH OF OUR COMMITMENT TO SUPPORT OUR EMBATTLED ALLY.

DURING FY 1988, WE PLAN TO DELIVER OVER $5.5 MILLION IN ENGINEERING EQUIPMENT, PLUS AN ADDITIONAL $15 MILLION IN ENGINEERING EQUIPMENT PROVIDED THROUGH TRANSFER OF ESF FUNDING. PRIMARILY CONSTRUCTION EQUIPMENT SUCH AS BULLDOZERS, GRADERS, AND THE LIKE, THIS ENGINEERING EQUIPMENT WILL BE UTILIZED IN THE AFP'S CIVIC ACTION PROGRAM -- AN IMPORTANT PART OF ANY VIABLE COUNTER-INSURGENCY. ADDITIONALLY, 25 V-150'S ARE SCHEDULED FOR DELIVERY IN FY 1988 AND 500 1/4 TON TRUCKS ARE SCHEDULED FOR ACQUISITION THROUGH DEFENSE RE-UTILIZATION MARKETING OFFICES (DRMO) AT VERY FAVORABLE PRICES. AT THE SAME TIME, WE ARE PROVIDING MORE THAN $2.6 MILLION IN INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET) FUNDS FOR THE AFP THIS YEAR, MAKING THE PHILIPPINES THE THIRD RANKING IMET RECIPIENT WORLDWIDE.

WE ARE PROUD OF OUR CONTRIBUTION TO REBUILDING THE AFP, PROUD OF THE ACCELERATED DELIVERY PROGRAM, PROUD OF THE QUALITY OF U.S. EQUIPMENT AND THE TRAINING THAT SUPPORTS IT. BUT WE HAVE SAID OVER AND OVER THAT THIS IS NOT A TIME FOR SELF-CONGRATULATIONS. WHAT WE HAVE DONE WITH OUR SECURITY ASSISTANCE PROGRAM TO DATE IS NOT SUFFICIENT TO MEET OUR COMMITMENT TO THE PHILIPPINES, AND IT IS CERTAINLY NOT ENOUGH TO MEET THE EXTENSIVE NEEDS OF THE AFP.

WE HAVE NOT REACHED THE MILITARY ASSISTANCE GOALS OF THE

PRESIDENT'S "BEST EFFORTS" PLEDGE, WHICH IS DIRECTLY RELATED TO OUR CONTINUED PRESENCE AT PHILIPPINE AIR AND NAVAL BASES. THE SUBCOMMITTEE UNDERSTANDS WELL THE STRATEGIC IMPORTANCE OF U.S. FACILITIES IN THE PHILIPPINES. THE PHILIPPINES, AS WELL AS OTHER NATIONS IN THE REGION, WILL CAREFULLY WEIGH OUR PERFORMANCE AGAINST OUR PLEDGES.

TESTIFYING BEFORE THIS SUBCOMMITTEE TWO MONTHS AGO, ASSISTANT SECRETARY ARMITAGE MADE A COMPELLING CASE FOR THE AFP'S NEED FOR SECURITY ASSISTANCE. HE SAID THAT THE MAINTENANCE BACKLOG COULD CONSUME, ACCORDING TO ONE ESTIMATE, A BILLION DOLLARS IN SPARE PARTS AND SUPPLIES. HE LISTED THE SHORTFALLS IN TRUCKS, HELICOPTERS, AND RADIOS. THE NEED IS URGENT. THE INTERESTS BEING SERVED ARE NOT ONLY THOSE OF OUR ALLY, BUT OUR OWN, AS WELL.

NO MEMBER OF CONGRESS SHOULD BE UNDER THE ILLUSION THAT THE PROVISION OF THIS AID, BY ITSELF, WILL EITHER REBUILD THE AFP'S COMBAT CAPABILITY OR RESOLVE THE FESTERING INSURGENCY. IT WILL ACCOMPLISH NEITHER. THE FORMER WILL REQUIRE A SUSTAINED EFFORT OVER TIME BY THE AFP, AS WELL AS A RELIABLE SOURCE OF EXTERNAL SUPPORT. THE LATTER WILL REQUIRE A CONCERTED EFFORT TO EMPLOY ALL THE TOOLS OF GOVERNMENT TO A COMMON END, AS WELL AS RELIABLE SOURCES OF ECONOMIC ASSISTANCE. BUT I CAN ASSURE THE MEMBERS OF THIS SUBCOMMITTEE THAT, WITHOUT THE MILITARY AID WHICH WE SEEK FOR THE PHILIPPINES, THE PREPARATIONS AND GROUNDWORK WHICH PRESIDENT AQUINO HAS LAID TO DEFEAT THE COMMUNIST INSURGENCY WILL BE FOR NAUGHT.

DOD HUMANITARIAN ASSISTANCE TO THE PHILIPPINES

MR. CHAIRMAN, I HAVE ELECTED TO CONCLUDE MY STATEMENT BY UPDATING YOU ON THE STATUS OF OUR EMERGENCY MEDICAL ASSISTANCE PROGRAM IN THE PHILIPPINES. LAST YEAR, AS A RESULT OF A U.S. ARMY MEDICAL SURVEY CONDUCTED AT THE REQUEST OF THE AFP AND OTHER REPORTING AVAILABLE TO US, PRESIDENT REAGAN DETERMINED THAT A MEDICAL EMERGENCY EXISTED IN THE PHILIPPINE ARMED FORCES. HE

AUTHORIZED THE DEPARTMENT OF DEFENSE TO MAKE AVAILABLE TO THE PHILIPPINES NOT MORE THAN $10 MILLION IN URGENTLY REQUIRED MEDICAL SUPPLIES AND EQUIPMENT FROM U.S. MILITARY STOCKS.

SINCE THAT PRESIDENTIAL DETERMINATION, WE HAVE DELIVERED LIFESAVING DEFENSE GOODS AND SERVICES VALUED AT $6.1 MILLION. REGRETTABLY, SOME ASPECTS OF THIS HUMANITARIAN PROGRAM ARE NOT WELL UNDERSTOOD. FIRST, THE DEPARTMENT OF DEFENSE WAS NOT AUTHORIZED TO PURCHASE NEW MEDICAL SUPPLIES AND EQUIPMENT FOR THE PHILIPPINES, BUT ONLY TO DRAWDOWN ITS OWN EXISTING STOCKS AND TO DO SO IN A MANNER WHICH WOULD NOT JEOPARDIZE MEDICAL CARE AND COMBAT READINESS OF THE U.S. ARMED FORCES. SECOND, THE COST OF TRANSPORTING THE MEDICAL SUPPLIES AND EQUIPMENT HAD TO BE INCLUDED IN THE OVERALL $10 MILLION LIMIT. THIS ARGUED FOR USE OF SLOWER, BUT LESS EXPENSIVE SEALIFT RATHER THAN HIGH COST AIRLIFT TRANSPORTATION FOR SOME ITEMS. THIRD, THE AFP'S CHRONIC SHORTAGE OF MEDICAL MATERIEL MEANT THAT SUDDEN INFUSION OF SUPPLIES AND EQUIPMENT THREATENED TO OVERTAX A DISTRIBUTION SYSTEM UNACCUSTOMED TO A HEAVY VOLUME OF MEDICAL GOODS. THUS, IT BECAME IMPORTANT TO SPACE DELIVERIES TO INSURE APPROPRIATE DISTRIBUTION, AND WE DID SO IN COORDINATION WITH THE AFP.

LAST MONTH SECRETARY WEINBERGER DIRECTED THE SERVICES TO PROVIDE THE REMAINDER OF THE MEDICAL SUPPLIES AND EQUIPMENT TO MEET THE TARGET OF $10 MILLION. THE SERVICES COMPILED LISTS OF AVAILABLE MATERIEL AND WE HAVE COMPARED THESE LISTS WITH THE AFP'S NEEDS. WE HOPE TO COMPLETE DELIVERY OF THE REMAINING $3.9 MILLION IN MEDICAL SUPPLIES AND EQUIPMENT BY MID-JUNE.

IN ADDITION TO THIS MEDICAL ASSISTANCE PROGRAM FOR THE AFP, THE U.S. NAVY'S LARGEST HOSPITAL SHIP, USNS MERCY, CONTINUES ITS HUMANITARIAN MISSION IN THE PHILIPPINES. IN THE TEN WEEKS SINCE THE MERCY ARRIVED IN THE PHILIPPINES, U.S. AND FILIPINO PHYSICIANS AND NURSES ABOARD SHIP HAVE PROVIDED CARE AND TREATMENT TO OVER 54,000 FILIPINOS.

IN EACH OF THE SIX PORTS WHICH THE MERCY HAS VISITED, MEDICAL/DENTAL CIVIC ACTION CLINICS ARE SET UP ASHORE FOR 8-10

DAYS TO SCREEN MORE THAN 1,000 PATIENTS DAILY FOR TREATMENT IN 12 SPECIALTY CLINICS. PATIENTS WITH MORE SERIOUS AILMENTS ARE PRE-SCREENED BY LOCAL HEALTH AUTHORITIES PRIOR TO THE SHIP'S ARRIVAL FOR POSSIBLE SURGERY. APPROXIMATELY 140 PER PORT VISIT ARE SELECTED FOR MAJOR SURGERY WHICH CANNOT BE DONE ASHORE. TO DATE, OVER 500 MAJOR SURGERIES HAVE BEEN DONE ABOARD SHIP. THE STORIES OF THOSE WHO HAVE BEEN HELPED WOULD FILL VOLUMES, BUT THEY ALL CONTRIBUTE TO THE GROWING REPUTATION OF THE MERCY AS "THE MIRACLE SHIP OF THE PHILIPPINES."

THE MERCY CREW OF MORE THAN 650 MEDICAL AND SUPPORT PERSONNEL FROM THE U.S. NAVY, ARMY, AIR FORCE, PUBLIC HEALTH SERVICE, MILITARY SEALIFT COMMAND, AND PHILIPPINE MEDICAL COMMUNITY EXPECT TO CONTINUE TREATING ABOUT 1,000 PATIENTS DAILY DURING THE ONE REMAINING PORT VISIT IN THE PHILIPPINES.

CONCLUSION

MR. CHAIRMAN, THE MESSAGE IN MY STATEMENT IS SIMPLE AND DIRECT. WE CANNOT AFFORD TO WASTE OUR TIME AND ENERGY DEBATING WHETHER A GLASS OF WATER IS HALF FULL OR HALF EMPTY. THE PHILIPPINES IS AN IMPORTANT ALLY OF THE UNITED STATES. WE HAVE IMPORTANT NATIONAL INTERESTS IN THE PHILIPPINES, INTERESTS WHOSE PROTECTION IS CLOSELY RELATED TO THE PRESERVATION OF PHILIPPINE DEMOCRACY. THE PHILIPPINES IS BESET WITH SERIOUS, NATION-THREATENING SECURITY PROBLEMS. PRESIDENT AQUINO NEEDS OUR SECURITY ASSISTANCE RESOURCES -- THE AID THAT WE HAVE ALREADY AGREED TO PROVIDE -- SO THAT HER ARMED FORCES CAN PROTECT DEMOCRACY IN THE PHILIPPINES.

DURING THE PAST YEAR, CONGRESS AND THE ADMINISTRATION HAVE BEEN PARTNERS IN SUPPORTING PRESIDENT AQUINO'S GOVERNMENT. THIS SUBCOMMITTEE, IN PARTICULAR, HAS MADE A SEMINAL CONTRIBUTION TO OUR SUCCESSFUL PHILIPPINES POLICY. AS WE RENEW OUR COMMITMENT TO PHILIPPINE DEMOCRACY, WE MUST ALSO REALIZE THAT DEMOCRACY CAN BE FRAGILE WHEN IT IS NEW. THE EXPECTATIONS OF FILIPINOS ARE HIGH, BUT THE NATION FACES MANY DIFFICULT PROBLEMS...AND THE SECURITY PROBLEM CONTINUES TO BE AMONG THE MOST CRITICAL. I ASK THAT THE

CONGRESS JOIN WITH THE ADMINISTRATION IN A MUTUAL RESOLVE TO ASSIST THE AQUINO GOVERNMENT AND TO DEMONSTRATE THAT THE UNITED STATES IS A RELIABLE ALLY THAT HONORS ITS COMMITMENTS.

WHAT CAN THE EXECUTIVE BRANCH DO?

FIRST, WE WILL RENEW OUR EFFORT TO PLACE A HIGH PRIORITY ON THE EXPEDITIOUS DELIVERY OF SECURITY ASSISTANCE EQUIPMENT TO THE AFP TO INSURE THAT, ONCE A FORMAL REQUEST IS RECEIVED, THE EQUIPMENT WILL BE AVAILABLE TO PHILIPPINE MILITARY FORCES AT THE EARLIEST POSSIBLE DATE.

SECOND, WE WILL USE PRESIDENT AQUINO'S REQUEST FOR 10 HELICOPTERS AND PRESIDENT REAGAN'S OFFER OF EMERGENCY MILITARY MEDICAL AID AS EXAMPLES OF THIS EMPHASIS ON MEETING THE AFP'S NEEDS.

THIRD, IN OUR DISCUSSIONS WITH PHILIPPINE MILITARY LEADERS, WE WILL URGE THAT U.S. SECURITY ASSISTANCE BE UTILIZED PRIMARILY FOR THE MAINTENANCE AND SUPPORT OF MOBILITY AND COMMUNICATIONS EQUIPMENT AND WEAPONS SYSTEMS CURRENTLY IN THE AFP INVENTORY AND FOR THE ACQUISITION OF ADDITIONAL INDIVIDUAL EQUIPMENT.

FOURTH, WE WILL RECOMMEND TO THE AFP LEADERSHIP THAT, IN ITS DECISIONS ON ACQUISITION OF NEW MILITARY EQUIPMENT WITH U.S. SECURITY ASSISTANCE FUNDS, THE PHILIPPINE MILITARY USE AS PRIMARY CRITERIA RELEVANCE TO THE COUNTERINSURGENCY MISSION AND MOST ECONOMICAL SUSTAINMENT COSTS OVER TIME. THIS WILL INSURE THAT U.S. FUNDS BEING ALLOCATED TO THE PHILIPPINES ARE EMPLOYED TO MEET THE MOST URGENT NEEDS WITHOUT OVERBURDENING THE AFP SUPPORT SYSTEM.

AND FIFTH, WE WILL CONTINUE TO CONSULT WITH THE CONGRESS ON THE STATUS OF THE PHILIPPINE SECURITY ASSISTANCE PROGRAM AND THE CRITICAL REQUIREMENTS OF THE AFP FOR U.S. MILITARY AID.

WHAT CAN THE CONGRESS DO?

FIRST, CONTINUE TO WORK CLOSELY WITH THE ADMINISTRATION IN A JOINT EFFORT TO INSURE THAT U.S. POLICY IS WELL UNDERSTOOD AND TO MEET THE PHILIPPINES' AID REQUIREMENTS.

SECOND, ACT FAVORABLY ON OUR REQUEST THAT THE PHILIPPINES' UNCOMMITTED PRIOR YEARS' FOREIGN MILITARY SALES CREDITS, NOW

VALUED AT $29.4 MILLION, BE CONVERTED TO GRANT AID. THIS WILL PERMIT THE USE OF THESE FUNDS FOR ACQUISITION OF VITAL MILITARY EQUIPMENT WITHOUT INCURRING ADDITIONAL FOREIGN DEBT.

THIRD, SUPPORT THE ADMINISTRATION REQUEST FOR $50 MILLION IN SUPPLEMENTARY MILITARY ASSISTANCE FOR FY 87 AND $110 MILLION IN MILITARY ASSISTANCE FOR FY 88.

IN PURSUING THIS COURSE, MEMBERS OF CONGRESS NEED TO UNDERSTAND WHAT THIS SUBCOMMITTEE KNOWS SO WELL:

-- WE MUST GIVE SPECIAL COGNIZANCE TO THE IMPORTANCE OF THIS NATION KEEPING ITS WORD TO LOYAL ALLIES. OUR RELATIONSHIP WITH THE PHILIPPINES IS NOT BASED ON DOLLARS; IT IS BASED ON TRUST AND FIDELITY. WE ARE JUDGED AS AN ALLY ON OUR ABILITY TO KEEP OUR PROMISES, JUST AS WE JUDGE OTHERS BY THE SAME STANDARD. IT IS THUS IN OUR INTEREST TO DEMONSTRATE THESE QUALITIES OF TRUST AND FIDELITY IN OUR RELATIONS WITH KEY ALLIES SUCH AS THE PHILIPPINES.

-- WE MUST ALSO RECOGNIZE THAT THIS REQUEST FOR SECURITY ASSISTANCE FOR THE PHILIPPINES IS BASED NOT ONLY ON THE PRESIDENTIAL "BEST EFFORTS" PLEDGE, BUT ALSO ON THE VERY SPECIFIC NEEDS OF THE GOVERNMENT TO CONTAIN A SERIOUS THREAT TO ITS VERY SURVIVAL.

AMERICANS SEE DIFFERENT SHADES OF NATIONAL SECURITY INTERESTS. MOST FEEL STRONGLY THAT THE UNITED STATES SHOULD AGGRESSIVELY SUPPORT NASCENT DEMOCRACY. OTHERS EMPHASIZE THE IMPORTANCE OF OPPOSING COMMUNISM. STILL OTHERS FOCUS ON THE INHERENT VALUE OF MAINTAINING A STRONG AMERICAN DEFENSE. THE PHILIPPINES' CASE IS UNIQUE IN AMERICAN POLICY BECAUSE IT DIRECTLY REACHES EACH OF THESE CONCERNS. IT IS A CAUSE THAT EVERY MEMBER OF CONGRESS CAN SUPPORT AND, FOR THE SAKE OF THIS NATION'S SECURITY, IT IS A CAUSE THAT MUST BE SUPPORTED.

AFRICA CIVIC ACTION

Senator MIKULSKI. Before I turn to Mr. Nickles, I have one last question in this category of programming, which goes to the $6 million for the African civic action, which I was fascinated by. I didn't understand what it did, or why the military was involved in civic action programs, unless we were teaching African good citizenship. I just didn't get it.

Could you explain to me what this $6 million for African civic action is, and what it would do, and why we need it? Then I will turn to Senator Nickles?

General GAST. About 3 years ago, we, in the Department of Defense, always mindful of how we could help developing countries develop, maintain a military relationship, and have the military contribute to that development, found that in many countries in Africa, the assistance we were providing should not be necessarily hardware oriented, or lethal oriented. In many places, we had a military that was desperately trying to contribute to its country, to the development of that country.

A lot of them have civic action programs as we do in our own country. Civic action requires that we work with them, a million here or a half a million there. For example, we are helping them to build a hospital with their own engineers, their own soldiers, or we are helping them dig wells for irrigation. In some cases, we are helping them extend their runway for commercial airports.

These projects must be very carefully worked out. It is very difficult to do. It demands a lot of our energy to work those kinds of programs as you might imagine. We feel that they have been very successful.

There is a corollary program, the Coastal Surveillance Program in Africa, Western Africa particularly, where we are trying to get countries to work side by side to develop a capability similar to the Coast Guard to guard their waters, but more than that to have the ability to deny unwanted, primarily, Soviet fishermen who are stealing their fish in their economic zone, their fishing zone.

So these programs are designed to work with their military, to make some contribution, and to maintain some contact with them in what we believe to be a very productive way.

Senator MIKULSKI. General, Mr. Undersecretary, we can understand the good intentions behind this, but what we will need to understand for the funding is what specific countries are being funded, and what specific projects are being funded.

General GAST. We will be delighted to provide that to you.

[The information follows:]

FISCAL YEAR 1988 AFRICAN CIVIC ACTION PROGRAM

Because of the popularity of this program with African governments, it is "oversubscribed." We already have requests for projects in fiscal year 1988 which would total far in excess of $6 million. We are examining the feasibility and desirability of these but have not yet reached any final decisions.

However, I understand your desire for specificity. In that regard, in fiscal year 1987 we received $4.156 million for this program. The projects we have thus far agreed to or begun to fund are:

Country and project	*Cost*
Military Civic Action (MCA):	
Botswana: Ambulances	$50,000
Djibouti: Sanitary fill	30,000
Ghana: Medical equipment	125,000
Kenya: Water system	400,000
Niger: Airstrip	1,200,000
Senegal: Clinics/schools	750,000
Zaire: Medical supplies	42,000
African Coastal Security (ACS):	
Gambia: Pier/comms/spares	250,000
Guinea Bissau: Hull paint/comms	116,000
Mauritania: Comms/training/base upgrade	350,000
Senegal: Materials for base	500,000
Sierra Leone: Spares for patrol boat	225,000

Senator MIKULSKI. Senator Nickles.

Senator NICKLES. Thank you very much, Madam Chairman.

Mr. Secretary, General Gast, I apologize for missing the larger part of your statement, but there were a couple of subcommittees meeting at the same time.

BASE NEGOTIATIONS WITH GREECE

You may have touched on this, and if so, I apologize. Have you discussed Greece and Turkey at length?

Mr. DERWINSKI. Yes, but we would be very pleased to do it again.

Senator NICKLES. Mr. Secretary, I have discussed this with you privately, but I feel I should bring to the attention of this forum my concerns about Mr. Papandreou and some of the statements that have been made concerning U.S. bases in Greece. Lately there has been some debate concerning statements that were made or reported to be made, concerning intelligence, cooperation, and harboring terrorists, et cetera, and some repercussions that they may or may not have.

What is the status of our base negotiations with Greece?

Mr. DERWINSKI. Our base negotiations at the moment, seem to be complicated by, unexpected on our part and certainly unanticipated, public debate over information on terrorism that we had shared with the Government of Greece.

The frustrating thing about it, Senator, is that just prior to that, Secretary Shultz had met with the Greek Foreign Minister and had basically reached an understanding to have the base negotiations proceed. We were looking forward to expeditious negotiations and, frankly, we were hopeful to wrap it up by the end of this calendar year. We were led to believe that the Greek Government would be cooperative in expediting the negotiations.

How long the current new debate will run, and what interference it will create in the time factor relating to the base negotiations, I just can't tell you.

Senator NICKLES. Who made the revelation, or made it public, concerning the statement on terrorism?

Mr. DERWINSKI. It is our belief that the "leaks" to the press occurred in Athens. We had very tightly held the information. It was kept very, very closely. The embassy held the information that was turned over to the Government of Greece. It is unfortunate that it has become a public debate.

Senator NICKLES. When you say that it was made public in Athens, you are saying not by U.S. officials.

Mr. DERWINSKI. That is right, not by U.S. officials here or in Athens.

ASSISTANCE TO SPAIN

Senator NICKLES. I noticed that the third chart shows reductions from 1986 funding levels, and it shows a very significant reduction to Spain. I mentioned my concern about Spain, and their desire to have us leave some of the bases, particularly the air bases. What is the status of those negotiations?

BASE NEGOTIATIONS WITH SPAIN

Mr. DERWINSKI. Those negotiations are proceeding. They are at the very delicate point. I should say that the Spanish negotiations are very different from some others. There is nothing but goodwill on all sides.

What we are running into is an earlier political commitment made by the Prime Minister, which involves the referendum relating to NATO. It is part of the political debate. At least by implication, the commitment was made to reduce U.S. military presence. I guess the Spanish political situation at the time, they felt, required that as a concession to get the pro-NATO vote.

So it is in the context of political entanglements, unique to Spain, that our base negotiations have somewhat suffered. And then, of course, there are our own budgetary restrictions. However, the negotiations are proceeding. It is my understanding that we are still hopeful that a practical NATO/U.S./Spain total compromise will be worked out.

Senator NICKLES. Is it your strong position as well as the Department of Defense that those bases are needed for U.S., Spanish, as well as NATO interests?

Mr. DERWINSKI. Yes. General Gast is much better equipped to discuss the military value of those bases.

General GAST. We do, yes, sir.

Senator NICKLES. I put these two together, and maybe they shouldn't be put together, but when I hear the Prime Minister of Spain making comments concerning the need to reduce American presence at those bases, and the same thing from Mr. Papandreou, and when I see chart that shows a significant reduction in support going to those countries, it doesn't bother me. As a matter of fact, I think that it is quite appropriate.

Mr. DERWINSKI. Senator, I think that it is always a little dangerous to dwell on personalities. That is why I am a little reluctant to say what I am about to say. But I think that it would be accurate to say that the political evolution in both countries is quite different.

The Prime Minister of Spain, I think, had led his country from what was a period of almost isolation within Europe for many years into now a very effective, economic, and defense ally. I think that it is a very progressive relationship that we have with Spain overall.

RELATIONS WITH GREECE

Our relations with Greece, while I describe them as being very good, are nevertheless complicated by the tendency for explosive political debate. As you, I think, accurately note, very often that explosive political debate is fed by public statements made by the Prime Minister, which sometimes are not helpful.

7:10 RATIO

Senator Nickles. Is there anything sacrosanct about the ratio of aid to Greece and Turkey? I wasn't here when the 7:10 ratio was developed, or at least I wasn't on this committee. This has been the case for how many years?

Mr. Derwinski. It has been the case since, as I recall, about the mid-70s, but I may have a faulty memory. But it is at least since that time.

Senator Nickles. Let me ask a question specifically concerning Greece, are they in need of that proportional aid in your opinion?

Mr. Derwinski. As a matter of principle, the administration does not support the 10:7 ratio. It was also the position of the previous administration. In terms of need, the defense requirements within NATO of Greece and Turkey are somewhat different. Then, again, the size of their populations and the size of their standing military vary.

I think that it would be accurate to say that the Turkish armed forces are substantially behind in modernization as compared to the Greek military forces.

TENSION IN THE AEGEAN

Senator Nickles. I remember, and, General, you might elaborate on this, there was a potential confrontation over an island, and I can't remember the name.

General Gast. Limnos Island, I believe.

Senator Nickles. That is correct. It seemed to reach somewhat of a—I am not going to say a flashpoint, but there was some concern raised internationally about that. Has that and the other overall general tension between Greece and Turkey dissipated to some extent?

General Gast. Yes, sir, it has considerably. They are talking, and that is very helpful.

ASSISTANCE TO GREECE AND TURKEY

I would like to go back and touch on a couple of comments, Senator, if I may. Let me pick up with Greece and Turkey, and then I would like to go back to Spain very briefly, if I may.

The Congress, as I realize without really understanding the reasons, as a body has felt that there should be a 7/10 ratio, and that this ratio has to do with balance, and the balance presumably is between Turkey and Greece. Our argument is that the amount of assistance should be based on what is required to turn the obsolescence of their forces around to help them perform their role in their own national systems, and perform their role within the NATO Alliance.

That is where the differences come between the administration and the Congress, because we believe that the needs of Turkey are immense because of the growing obsolescence of its armed forces and what needs to be done to overcome that obsolescence. It is not that we don't put importance upon Greece within NATO, within the alliance.

ASSISTANCE TO SPAIN

Going back to Spain, if I may, it is true that the amount was reduced down to $105 million this year instead of $400 million. In fact, the administration's request for fiscal year 1988 instead of $400 million, which is our pledged best effort in the last DECA, is down to $265 million.

Our concern about Spain, I think that we should all know, although I doubt if it will change your view very much, is that Spain borrows all the money and pays it back with interest, so we are not giving them money. More than that, the amount of money that they have gotten from us through loans is about 50 or 60 percent to fund all of the things that they are buying in the United States. So there has been a great economic return to the United States through procurements, if you would like to look at it that way.

BASE RIGHTS NEGOTIATIONS

Our concern, with each one of these base rights negotiations, and they are all coming up within the next year or two, Portugal, Spain, Greece, Turkey, and the Philippines, is: can we go in and credibly talk about a new arrangement, which to be sure, would be different than the last as we progress in our relationship. Can the negotiators, the people who are working, be able to go in and work out something which they believe is sustainable.

The appropriations of the last year or two, because of the budget crunch and Gramm-Rudman-Hollings, with the proportion of foreign aid going down at a rapid rate, are going to leave friends and allies with insufficient resources to meet legitimate defense requirements and with uncertainty as to whether equipment in the pipeline can be delivered. I think these outcomes are going to weaken the hand in the negotiations, not just for what has happened, but because of the implications for the future that is our concern.

Senator NICKLES. Thank you for your comments.

TENSION IN THE AEGEAN

Mr. DERWINSKI. Senator, may I return for just a moment. You made a comment about the tension involving the islands between Greece and Turkey. There was a dispute over the Aegean Islands, which was complicated by rumors of possible oil locations. It was very quickly diffused because both Prime Minister Papandreou and Prime Minister Ozal exhibited great statesmanship.

There was an exchange of correspondence between them that was a classic case where both governments, the Greek and the Turkish Governments, acted with great practicality, restraint and, I would say, diplomatic ability. It is to both of their credit, Prime Minister

Papandreou's and Prime Minister Ozal's credit, that that situation was diffused.

The Greek and Turkish relations are always a source of frustration. Nevertheless they have positive elements, high spots as well as low spots.

Senator NICKLES. Thank you.

Senator MIKULSKI. Thank you, Senator Nickles. If you have additional questions, we would be happy to submit them for the record.

Senator NICKLES. Thank you.

Senator MIKULSKI. The Undersecretary has an appointment, and we are trying to move as crisply as we can.

FMS LOAN REPAYMENT

Mr. Undersecretary, recognizing your time, we are going to consolidate our questions. I have a few related to loan guarantees and the ability to pay, and I have a question about the peacekeeping issues. The rest can be answered for the record. We appreciate your cooperation, and we are sorry that we were delayed in getting started.

This goes to the FMS loans and the ability to repay. This committee has been frustrated over the last couple of years because administration witnesses continue to provide inadequate responses to questions by members regarding the ability of FMS borrowers to repay their loans.

Senator Inouye asked your predecessor whether he was confident that the countries selected by your office could repay, and we got answers back, but still we are not confident.

We seem to have a growing lack of confidence that the countries selected by your office to receive FMS guaranteed credit have the ability to repay these loans, and this goes to some of the questions.

Are any of the countries, for which you propose FMS guaranteed loans in fiscal year 1988, presently in arrears on prior year loans? Which are those countries and how much are they in arrears?

Mr. DERWINSKI. I don't have a list of countries. You used the term in your question "permanently in arrears." In fact, my understanding is that the existence and the impact of the Brooke Amendment is so well known that they take careful steps not to be in arrears and trigger the Brooke Amendment. I have here, which I will be pleased to leave with you, an analysis of the FMS loan restructuring situation as it now stands.

I note here that four countries, Spain, Korea, Taiwan, and Oman, have expressed interest in prepayment of their FMS loans. I understand further that this is something that will be the matter of continued discussion between the Executive Branch and this committee and other congressional committees.

(The analysis follows:)

FMS DEBT RESTRUCTURING

The restructuring options that the President approved on December 18, 1986, are intended to address strategic countries' political and economic concerns stemming from outstanding Foreign Military Sales (FMS) loans having interest rates significantly above current market levels. The FMS loans covered by the restructuring options are those provided by the Federal Financing Bank (FFB) and guaranteed by the Defense Security Assistance Agency (DSAA). The options do not apply to loans offered through the FMS direct credit program.

As planned, countries will have the opportunity to request a restructuring of their FMS guaranteed loans under one of two alternatives as follows:

Prepayment at Par - The first option involves prepayment of outstanding principal at par. Borrowers with the resources or access to international capital markets will be able to liquidate high-interest loans without prepayment penalty. The U.S. Government will not guarantee the funds which may be borrowed to prepay these loans.

Partial Capitalization of Interest - The second option offers FMS recipients the possibility of deferring temporarily the payment of part of the interest due under the original loans. The U.S. Government will reduce the original interest rates on high-interest loans to a current market rate and capitalize the difference in interest payments between the new and the old rates. The capitalized amounts will be repaid with interest no later than the loans' original maturity. This option will permit some countries to benefit from a temporary reduction in FMS debt servicing. Moreover, the U.S. Government will still recover the full value of each loan within the life of the original loan contract.

From a foreign policy perspective, the FMS loan restructuring proposal is regarded as a useful and necessary measure for strengthening U.S. security relations with friends and allies. At present, some 38 countries have $15-$16 billion in FMS guaranteed loans carrying interest rates significantly above current market levels. Among these countries are Egypt, Israel, Spain, Turkey, Greece, Korea, Thailand, Jordan, Tunisia, and Morocco.

Thus far, 13 countries have responded on a preliminary basis to the U.S. offer. Korea, Spain, Thailand, and Oman have expressed firm interest in prepayment. Several other countries may also want to take advantage of this option. Response to the interest capitalization option has been slower. So far, only Turkey, Jordan, and El Salvador have indicated that they would like to participate. Several others, including Egypt and Israel, have said that they would like more time to study the interest capitalization option before making a decision.

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FMS LOAN RESTRUCTURING

The Administration initiative to permit a restructuring of Foreign Military Sales (FMS) loans drew heavy criticism from some congressional quarters. (See Attachment A for brief description of the restructuring options and statement of rationale.) Congressman Obey, Chairman of the House Appropriations Subcommittee on Foreign Operations, was particularly critical, noting the lack of advance consultations with Congress and the adverse impact on the budget.

Obey also expressed other concerns about the restructuring options. He opposes the prepayment option because the FMS borrowers most likely to participate are countries, such as Korea, which are relatively well off and in no special need of assistance. Questions have also been raised about the legality of FMS loan prepayment when the same option is only available to a small number of domestic borrowers under U.S. loan guarantee programs. Obey and others criticized the interest capitalization option because they believe that the deferral of interest payments, particularly for large FMS debtors such as Israel and Egypt, does not adequately address the existing FMS debt problem and will create a new debt problem when the deferred interest falls due at the loans maturity.

In discussions on the Hill, we have stressed that the two options were the best that we could develop given the legal and budgetary constraints which we faced. We also pointed out that the options are entirely within the Administration's existing legal authority and thus required no prior Congressional action to implement. With regard to prepayment, we also argued national security interests dictated that we offer the option to all U.S. friends and allies, including those, such as Korea, that are relatively more prosperous. (See attached Q&A's for answers to frequently asked questions.)

In hearings on FMS loan restructuring May 6, Obey raised the issue of funding for the Guarantee Reserve Fund (GRF) and complained that the interest capitalization option would exacerbate GRF illiquidity. The two, however, are unrelated. Legal review indicates that the GRF will not have to make good on any payments deferred under the option.

So far, four countries -- Spain, Korea, Thailand and Oman -- have expressed interest in prepaying their FMS guaranteed loans. Korea and Oman have recently reconfirmed their intent to make prepayment. Thailand remains interested in prepayment but said that it needs more time to study the implications of the required "technical default." Spain was originally very firm on prepayment. Earlier in June, however, a Spanish official informed us that the "technical default" requirement was also causing their lawyers serious problems because they were concerned that it might trigger cross-default clauses in other international loans and damage Spain's credit standing. Spain's participation, therefore, is now uncertain. We have told all four countries that we would not accept any FMS loan prepayments before October 1, 1987.

If all four countries prepay their FMS loans, we expect to receive payment inflows of approximately $1.4 billion in FY88. Should Spain decide not to prepay, the amount would drop to about $800 million.

Our discussions with foreign governments on the interest capitalization option have been more tentative. Egypt and Israel -- the two prime candidates for the option -- have declined to accept our offer as currently presented. Turkey, El Salvador, Jordan and Somalia have indicated interest but are still uncertain how they would like to proceed. The Turks continue to bargain for a more generous offer even though we have made clear legal and policy limitations. With all four countries, the requirement to clear up FMS arrears before the option becomes effective appears to be a major stumbling block to participation.

Section 8 of the FY 88 Budget Reolsution of 6/18/87 (Attachment B) contains language which may be interepreted as relating to the FMS prepayment option. The section seems to imply that Congress is permitting U.S. Government guarantees for use in the prepayment of Federal Financing Bank loans, including FMS loans, without any scoring of the budget. We are uncertain what the intent of Congress is in using this language. However, our FMS prepayment proposal definitely does not include the possibility of a U.S. Government guarantee, and we have made this point clear to foreign governments.

Attachment A

FMS LOAN RESTRUCTURING PROPOSALS

Proposals

-- On December 18, 1986, President approved two options to help ease the burden on friendly/allied countries of servicing high interest rate FMS guaranteed loans.

  o Prepayment at Par Countries can prepay their loans without penalty if they have resources. No USG funds or USG guarantees for private funds permitted.

  o Partial Capitalization of Interest USG will reduce interest rates on FMS guaranteed loans to current market rates. Difference in payment between old and new rate capitalized and repaid, with interest, at loans' original maturity.

Rationale

-- President took this action to protect U.S. national security interests. High interest rates on these earlier loans causing economic difficulties for many friendly/allied countries. Also a source of political friction since governments have difficulty justifying currently above-market interest rates on loans to promote U.S. as well as own security.

-- Administration also responding to expressions of concern by Congress about the heavy burden of past FMS loans on U.S. friends.

-- Existing legislative authority permits President to restructure FMS loan program in this way. FMS loan contracts are unique in providing for possibility of prepayment without penalty. Interest capitalization option involves full recovery of original value of loans and is within President's authority.

FMS Loan Data

-- 38 countries with outstanding FMS guaranteed loans. Include Israel, Egypt, Spain, Turkey, Greece, Korea, Thailand, Tunisia, Jordan and Morocco.

-- Outstanding principal on FMS guaranteed loans total $19 billion

-- Range of interest rates on FMS guaranteed loans 9-13%

Attachment B

BUDGETARY TREATMENT OF LEGISLATION AUTHORIZING THE PREPAYMENT OF CERTAIN LOANS

SEC. 8. For purposes of allocations and points of order under section 302 of the Congressional Budget and Impoundment Control Act of 1974—contributions resulting from legislation authorizing the United States Government to waive the prepayment premium on certain government loans guaranteed by an agency and advanced by the Federal Financing Bank and allows repayment with new government guaranteed loans shall not be allocated to committee and shall not be scored with respect to the level of budget authority or outlays under a committee's allocation under section 302 of such act.

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RESTRUCTURING AS FORM OF FOREIGN AID

Q: Isn't the restructuring of FMS loans just an attempt by the Administration to increase foreign aid through a buydown of FMS debt without congressional approval?

A: No. First, the restructuring is not a buydown of the FMS debt. Those countries which use the interest capitalization option will eventually pay back the full value of the original loan when the loan matures. Others who prepay the loans will do so under the provisions of the original FMS loan contracts -- provisions that are unique to the FMS loan program. Second, the authority to restructure the FMS loan program along these lines already exists and requires no additional congressional approval. Moreover, congressional bodies have encouraged the Administration along these lines. The Senate Appropriations Committee Report on the Foreign Aid and Appropriations Bill, for example, urged the Administration to "use existing authorities...to help alleviate the burden of FMS debt payments on friendly countries, including Israel and Egypt." Rather than bypassing Congress, therefore, we believe that we have, in fact, responded to shared concerns about the effects of FMS debt repayments on U.S. national security interests.

LEGAL BASIS FOR RESTRUCTURING

Q: What are the legal grounds for offering the FMS options?

A: Existing legislative authority permits the President to restructure the FMS loan program along the lines provided in the two options without new authorizing legislation. The possibility for prepayment at par at the USG's discretion is provided for in FMS loan contracts in the event of a default. Under our prepayment option, we will invoke this provision via a technical default arranged in cooperation with the FMS borrower. The U.S. Government would not guarantee any borrowed funds obtained by the FMS country to prepay the FMS loans. With regard to partial capitalization of interest, existing legislative authority gives the President flexibility in restructuring the repayment of government loans so long as their full value is recovered.

RELEVANCE TO BORROWERS UNDER DOMESTIC PROGRAMS

Q: If FMS borrowers are offered options to restructure their loans, why can't borrowers under other U.S. loan programs receive similar treatment?

A: The terms and conditions governing other U.S. loan programs differ from those governing the FMS loan guarantee program and are generally more restrictive. The provision allowing for prepayment at par, for example, is contained in the FMS contracts. This is not the case with other Federal Financing Bank contracts. The most important distinction between FMS and domestic government loan programs is that

FMS loans were not made to further or promote domestic commercial activity. Rather, they were extended to promote our U.S. national security interests. The President and Congress have always characterized FMS loans as security assistance. In view of this distinction, we do not believe that the President's action sets any precedent for domestic loan programs.

POSSIBILITY OF USG GUARANTEES

Q: Why can't the U.S. Government help countries to prepay by providing U.S. Government guarantee for commercial loans?

A: The President would need additional legislative authority to offer new U.S. Government guarantees to facilitate prepayment of FMS loans. An additional consideration is that the offering of these guarantees would affect the budget.

EFFECT ON GUARANTEE RESERVE FUND

Q: How will the interest capitalization option affect the Guarantee Reserve Fund?

A: The interest capitalization option has no effect on the Guarantee Reserve Fund. Under the option, the Federal Financing Bank changes the repayment schedule when the FMS loans are restructured. As long as countries continue to pay their FMS loans under the revised schedule, there are no "missed" payments and calls on the DSAA guarantee need not be made. FFB incurs no losses as a result of this arrangement since the restructured loans are financially equal to the original ones.

LIMITING OPTIONS TO NEEDY COUNTRIES ONLY

Q: Why didn't the Administration develop a plan for FMS loan restructuring which would help only those countries with real financial need?

A: As a matter of policy, the Administration decided to make available the FMS loan restructuring options available to both relatively well-off countries and those facing severe financial difficulties. We have national security interests in all countries which received FMS guaranteed loans. In some FMS countries with robust economies, such as Spain and Korea, the U.S. has vital interests which we have worked to promote for over four decades. Although in stronger financial positions than less-developed FMS recipients, these countries also bear heavy defense burdens and several are now embarking on major military modernization programs in cooperation with the U.S. We believe that it is entirely appropriate, therefore, to offer all our key allies and friends the opportunity of benefitting from the loan restructuring options.

FMS LOAN

Senator MIKULSKI. Yes. I think that it goes through some confusion as to when someone is in default. Let me just pose the question, and I am sure it will require further information.

I am informed that an FMS loan is determined to be in default or in arrears when a payment is not received within 10 days following the due date. On the eleventh day, the Defense Security Agency, as the guarantor, must remit payment from the guarantee reserve fund to the Federal Financing Bank on behalf of the borrowing country. Is that your understanding of how it works?

General GAST. That is correct.

Senator MIKULSKI. Therefore, it would take us back to how many are in arrears, what is the total amount in arrears, and then also we are interested in what is the total contingent liability of the United States for the FMS loans, because of lack of reserves?

We are afraid that we are piling up a lot of debt that the full faith in credit of the United States is pledged to back without any type of reserve fund. We don't want this to be the equivalent of an G&L crisis here in foreign military sales.

General GAST. No, we don't, not at all.

I think that it is fair to say, Madam Chairman, that both the administration and the Congress have been concerned about what you are describing for some time. In fact, it was in 1985 that we left the off-budget guaranteed loan financing concept and went to on-budget direct credit financing, so that we could obtain more MAP money and concessionary financing.

In fact, it was this committee, and I meant to express my appreciation for the administration, last year that was able to work in the conference in order to get more MAP and concessionary funding, so that we would not increase the debt burden.

The issue, then, largely is those countries that had the debt before we went on budget to direct credit financing in 1985 where we had the high interest rates that are fixed and may be as high as 11 to 14 percent.

The two countries that come to mind are Egypt and Turkey in that regard. Egypt in the sense that she is a year in arrears on her payments and is rescheduling, and Turkey in the sense that she is in arrears by some $400 million, or very close to it, in making payment. Both Egypt and Turkey are paying only before they go under Brooke, but not any sooner. There are several other countries who are in arrears on their payments and have contributed to the depletion of the Guarantee Reserve Fund [GRF].

GUARANTEE RESERVE FUND

As of 30 June, the GRF owed $147 million to the Federal Financing Bank, or about one month's worth of activity due to late payments and reschedulings. Turkey, by the way, is becoming an increasing drain on the Guarantee Reserve Fund.

Senator MIKULSKI. Just a couple of follow up questions.

FMS LOAN RESTRUCTURING

One, the question of whether we should face up to the fact that loans are not the answer to some of these countries. We should not call them loan programs to be honest on the books type of thing.

General GAST. We are very concerned about it.

Senator MIKULSKI. Let me just follow up. This would be point number one.

Point number two, where we have allies, and we have these old loans at high interest rates, rescheduling is one thing, but maybe we need to essentially have them restructured or refinanced, if in fact they do intend to pay, and to really take a look at this and not just carry them.

Then we have to go back to this guarantee reserve issue. Based on what you have just said, General, it seems to me that the reserve is now below zero.

General GAST. It is below zero, but I might say that the Administration has a plan, which it has briefed to several committees, not this committee, perhaps it has, but I am not aware of it, to do what you have suggested. It is to restructure the loans for those countries. We can't unilaterally reschedule. We are talking about restructuring current debt to give countries some short-term relief.

GUARANTEE RESERVE FUND

Senator MIKULSKI. Would you, Mr. Undersecretary, and General, agree that the Guarantee Reserve Fund should be restored and restored somewhere around a $750 million level?

General GAST. I would not, but then you didn't ask me.

Senator MIKULSKI. Let me ask my ethnic colleague here.

Mr. DERWINSKI. As a matter of fact, in my prepared statement, we went into some detail on the basic problem. I would also like to take note of the report language accompanying the budget resolution which attempts to direct the capitalization of the guarantee reserve fund of at least $532 million. Our review indicates that the capitalization would have an extremely deleterious effect on our fiscal year 1988 programs by reducing them by that amount, and further circumscribing flexibility in allocation.

In addition to that, I would be pleased to provide you with much more detail—with a more detailed analysis that has been made. What we come down to, as the General indicated, is that Turkey and Egypt have unique and pressing financial complications that are basically responsible for the complications with the funds.

[The information follows:]

INFORMATION PAPER ON GUARANTY RESERVE FUND (GRF)

Background. The FMS Guaranty Reserve Fund was established by P.L. 96-533, effective on December 16, 1980, as a revolving fund. Prior to that date, from inception of the guaranty loan program in 1964, funds were maintained in a segregated reserve within the MAP (military assistance) account and after 1986, the FMS credit appropriation account. The reserve was initially capitalized by obligation of a portion of the annual security assistance appropriations equivalent to 25 per cent of the principal amount of the guaranties (guaranty loan value) issued during each fiscal year. Obligations so recorded allow the reserve balance to rise in proportion to the outstanding guaranty liability. Because missed payments were so rare in the early years of the FMS Credit Program Congress reduced the 25-per cent reserve requirement to ten per cent in 1974. Then in 1980, Congress discontinued appropriating funds annually to maintain the fund at the proper level and established the GRF as a revolving fund. By eliminating the annual obligation of FMS Credit appropriations entirely, the GRF was left to "revolve" without an adjustment mechanism to compensate for changing economic conditions in those countries that were borrowing through the FMS or other loan programs.

Discussion. Since the inception of the GRF in 1980, the cash balance has progressively declined from the initial capitalization of $1.117 billion until it was completely exhausted on December 31, 1986. Currently the DOD is 30 days behind in making guaranty payments to the FFB due to the cash situation. As of June 30, the total amount owed to the FFB was $147.6 million.

The depletion of the fund can be attributed primarily to net GRF disbursements on behalf of two countries, Egypt and Turkey. Together they account for nearly 70 per cent of the current accounts receivable of the fund. Over $1 billion has been disbursed from the fund on behalf of these two countries that is still outstanding.

In the case of Turkey, large debt reschedulings between 1981 and 1983 cost the fund approximately $247 million. Then in December 1985, Turkey began a pattern of deferring all payments of guaranty loans until approximately one year after the scheduled due date. This has cost the fund an additional $244 million.

Egypt's situation can be traced to the rapid buildup of FMS and other debt service requirements as a result of some very large loans that were extended in the early 1980's at relatively high interest rates. By 1983 it was clear that Egypt was beginning to have difficulty in servicing its FMS debt and by 1985 a pattern of delaying each scheduled payment for the maximum period (one year) that would avoid Brooke Amendment sanctions. As a result of this practice the DOD has had to disburse $539 million from the GRF to make the lender whole. For over two years now Egypt has been paying only to avoid triggering the Brooke Amendment sanctions.

In May, Egypt concluded a major multilateral rescheduling under the auspices of the Paris Club. About $1.2 billion owed under guaranteed FMS loans is involved. The prospective impact of the Egyptian rescheduling on the GRF has dictated a multilateral rescheduling under the auspices of the Paris Club. About $1.2 billion owed under guaranteed FMS loans is involved. The prospective impact of the Egyptian rescheduling on the GRF has dictated a reappraisal of existing authorities to manage the guaranty arrangement with the Federal Financing Bank (FFB). Through this reappraisal, Treasury has agreed to a new arrangement with respect to rescheduling which provides for the FFB to receive payment directly from Eqypt (on the rescheduled payment date) for those payments that are rescheduled, rather than from the GRF on the date the payment was rescheduled in the loan agreement. For regular missed payments during periods when the GRF is temporarily illiquid, payment to the FFB will be deferred until such time as the fund has a positive cash balance. For any delay in payment to the FFB, for either regular or rescheduled payments, the FFB will receive interest to ensure that the net present value of the loans involved is fully protected.

This arrangement has been reviewed by Treasury, State and DSAA Legal Counsel and there is complete agreement that it is well within the authority of the Treasury Department to implement this change in the guaranty process.

While this arrangement with the FFB is not considered to be an ideal long-term solution to the GRF's liquidity problem, it is important to ensure that whatever remedy that is adopted is not one that causes a severe financial crisis in the U.S. Government's ability to support an ongoing and viable security assistance program. In November of 1985, the Administration reported to the Congress on the GRF. The report included five options for GRF replenishment. The five options included in the 1985 report were:

1. Permanent indefinite appropriation;
2. Appropriation in FY-87 that would be part of a three-year annual appropriation to gradually rebuild the Fund;
3. Appropriation in FY-87 to restore the Fund to an agreed level;
4. Rechannel direct credit receipts to the Fund;
5. Annual appropriations to equal projected deficits in the fund.

The above options (prepared prior to the passage of Gramm-Rudman-Hollings) offered a range of choices, any one of which could have solved the fundamental liquidity problem of the GRF. However, a more critical dimension to the overall problem now greatly complicates our ability to use security assistance as an effective tool of foreign policy while solving the GRF liquidity problem at the same time. If the Congress were to take action to recapitalize the GRF in anticipation of the Egyptian rescheduling the result would be disastrous. If we just assume the historical earmarking for Israel and Egypt alone, a $500+ million appropriation to recapitalize would decimate the program. The likely result would be to reduce all countries, other than Egypt or Israel, by as much as one third. Additional earmarks beyond those for Israel and Egypt would make the problem progressively worse.

Two of the options identified in the 1985 report could conceivably address the liquidity problem without creating additional programmatic damage to the foreign assistance accounts, i.e., a permanent indefinite appropriation or rechanneling direct credit receipts to the GRF. The potential for programmatic damage, of course, would depend on how these actions would be scored in Congressional budget considerations.

In light of this potential devastation to foreign aid programs and under the arrangements agreed to among the agencies, it must be kept in mind that there is no overall urgency in arranging a transfer between two U.S. Government accounts.

Summary

There has been some concern voiced that the FFB does not have the right to carry the Egyptian rescheduling because, if it does, it would lose money for the U.S. Government. This is simply not the case. FFB loans are not at risk as a result of the new arrangement between DOD and the present value of those loans is more than protected.

We believe that we have developed an arrangement that is completely within our legal authorities to deal with the GRF problem in a manner that will not lose the U.S. Government money over the life of the loans in question and that will not further damage critical security assistance programs that are already underfunded.

REEXAMINATION OF FMS ISSUE

General GAST. Madam Chairman.

Senator MIKULSKI. General, unfortunately, we are going to have to move to something else.

General GAST. I am sorry, I don't want to leave my last comment for the record, when I said that I would not. I am talking about within the current budget atmosphere, I am not talking about whether it should be.

Senator MIKULSKI. That was assumed, but I am glad that we clarified it.

This is really a question for the record, Mr. Undersecretary, because I think this whole FMS issue really needs to be examined, and we really need to have a real policy, particularly where there are allies for which there are no prickly feelings here.

In a fiscal year 1984 hearing, Undersecretary Schneider said, "If depleted at the present rate, the fund will drop below the $750 million in 1984. We are required by law," he said, "to inform Congress when that occurs and propose remedial action." We wanted that as part of our official record just so that we understand where we are heading in this.

I think that we don't want these loans to drift. We have this unfunded liability and we need to resolve it, not only for accounting purposes, but for clarity. I think that it is no use stringing our allies along and fooling around with their process.

CARIBBEAN PEACEKEEPING FORCE

My last area will go to the peacekeeping operations related to the Caribbean Peacekeeping Force.

Mr. Undersecretary, in fiscal year 1984, the President used his special authority under the Foreign Assistance Act to transfer up to $10 million in funds appropriated for economic support to the peacekeeping operations in order to support the Caribbean Peacekeeping force.

At that time, he also used his special authority under 614 to provide for the immediate transfer and obligation of an additional $5 million, which had been originally appropriated to the Sinai effort. A total of $15 million was made available for training, equipping, and sustaining the Caribbean Peacekeeping Effort.

In fiscal year 1985, the President again reprogrammed $2 million from the Sinai to the Caribbean. This was added to $5 million previously appropriated. So in fiscal years 1984 and 1985, $22 million was made available for the Caribbean Peacekeeping Force, some of which was programmed out of the Sinai.

What has happened to this peacekeeping force? What lasting effect did the expenditure of $22 million have, and do you want any more money in 1988?

I know that the peacekeeping force has gripped the attention of the American people out there.

Mr. DERWINSKI. I think that the intent of the peacekeeping force, the cooperation that we envision under the Memorandum of Understanding, I think, is quite positive and practical. There was an official use of it sometime ago, that I think was in November of 1986 in Grenada when the 40-man unit was deployed because of the possibility of domestic unrest.

I think that the sense of appreciation and, let's say, willingness of the island states to have this security system work, is all very positive. I am sorry that I do not have the budget figures with me.

Senator MIKULSKI. Do you need more money in fiscal year 1988?

General GAST. I would like to make a comment, and I cannot say whether it is peacekeeping. We worked very hard, beginning about 2 years ago, following Grenada, to reduce the peacekeeping force in the Eastern Caribbean. If there is one there, it is very small and it has a very small purpose any more.

Our objective was to train those countries to where they could attend to it themselves, working together. In fact, our efforts over the last 2 or 3 years have been at the rate of about $7 or $8 million for those six countries. Peacekeeping is not on my mind.

What is on my mind is to continue to train and equip those small island nations, working together the best they can, to keep the Cubans from penetrating and creating problems, and helping them in any way we can in the drug problem that is coming up through there, Coast Guard work, and that sort of thing.

CONCLUSION

Senator MIKULSKI. Thank you, General.

This is going to conclude our formal oral questions. Mr. Derwinski, and General Gast, we thank you for your testimony. Several members of the subcommittee have indicated that they will be submitting questions for the record. We will have all of the subcommittee's questions within one week, and we ask that you return them to us no later than 2 weeks after you receive them.

Before this subcommittee stands in recess, and I announce that, the subcommittee would like to thank you, General Gast. We understand that this is your last official appearance before this committee. I would like to thank you on behalf of the subcommittee for the services that you have provided.

First of all, you are a really good teacher. We have faculty recruitment problems at the Naval Academy. If you want a job, talk to us. You really do present it in a crisp, coherent, cogent way that we could follow in terms of the flash points around the world.

Secondly, in our conversations and dealings with you, we have found you to be a straight talker and a straight shooter. We really do appreciate that.

SUBMITTED QUESTIONS

Additional questions by committee members will be inserted at this point in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR INOUYE TO MR. DERWINSKI.

EL SALVADOR: MAP

SENATOR INOUYE: Mr. Undersecretary, on January 3, 1981, Michael Hammer and Mark Pearlman, two Americans working on land reform in El Salvador were gunned down in what U.S. Ambassador Thomas Pickering later said was an incident which "Epitomizes the worst in Salvadoran society." In the current fiscal year, the Congress withheld $5 million of the military assistance earmarked for El Salvador pending the resolution of this so called "Sheraton murders." You are now here requesting an additional $118 million in military assistance to El Salvador. Has justice been achieved in the Sheraton murders?

MR. DERWINSKI: Justice has been achieved in part. The two triggermen who killed the North American AIFLD employees and the Salvadoran director of the government land reform institute (ISTA) were convicted in 1985 of the crime and sentenced to 30-year prison terms (although the case was ready in 1983, it could not go forward until appeals by others implicated in the case were resolved). The sentence was confirmed by the Salvadoran Supreme Court in 1986. The courts, however, found insufficient evidence under Salvadoran law to sustain the charges against two civilians and one former junior army officer suspected of masterminding the murders. Under Salvadoran law, there is no possibility of retrying the civilians or Lt. Lopez Sibrian for this crime. The Government of El Salvador was, however, able to introduce new evidence against a second former officer, Capt. Eduardo Avila, in the Fifth Criminal Court of San Salvador. His attorneys filed an appeal of the reopening of the case against him, which the Supreme Court found against the appeal and returned the case to the Fifth Criminal Court of San Salvador. Subsequently, Avila's attorney's filed an amparo petition, which is now under review by the Supreme Court.

U.S. INFLUENCE IN SHERATON MURDERS

SENATOR INOUYE: Assistant Secretary of State Elliott Abrams has said this case is a "test of American influence." If that is true, why is the Adminstration requesting additional military assistance when the Salvadoran military has failed to move on the prosecution of two junior officers who are widely believed to have planned and ordered the killings? Does the U.S have influence?

MR. DERWINSKI: The prosecution of the two former officers is not under the jurisdicion of the Salvadoran military. The offenses fall under the jurisdiction of the civilian courts and it is there that the case has been tried. Lopez Sibrian was cashiered in 1984 and Capt. Avila has been relieved from active duty and pay status. The Government of El Salvador has been working diligently on this case, succeeding in obtaining the convictions of the murderers themselves and continuing the efforts to prosecute the suspected instigators of the crime. The independent judiciary found against the government's case, however, in regard to the two civilians and Lopez Sibrian. We hope that the courts will deliver a just finding in the case against Avila, however.

Military assistance for El Salvador is designed to help the democratically-elected government continue to consolidate democracy against its enemies on both the extreme right and the violent left, and to promote a respect for human rights. Our support of the democratically-elected government in its fight against the guerrilla warfare waged by several thousand hard-core Marxist-Leninists, supported by a tiny fraction of the population, is not predicated on single issues.

The dramatic and almost universally acknowledged improvement in the human rights situation since the Sheraton murders amply demonstrates the effectiveness of our assistance and influence. The lack of rapid progress in a handful of highly publicized cases dating from 1980-83 cannot honestly be used to claim that there has been no progress in the overall situation. A review of the chaotic and extemely violent situation in El Salvador during those years will amply demonstrate the dramatic improvements achieved by our policies and our assistance.

The U.S. obviously has influence in El Salvador. However, an attempt to intervene directly in the independent judicial process would clearly be overstepping the bounds of use of influence with another sovereign nation and would undermine U.S. efforts to promote and strengthen the concept of an independent, civilian judiciary, much as we may disagree with individual decisions by some courts and judges. By the same token, it would be a complete reversal of U.S. policy for the U.S. Government to encourage the military to interject itself into civilian judicial cases because of our interest in those cases.

STATUS OF AVILA AND SIBRIAN CASE

SENATOR INOUYE: When the Administration was seeking to justify its request for Fiscal Year 1984 supplemental funding for military assistance to El Salvador, it pointed to the arrest of Captain Eduardo Avila as evidence that the military was bringing its own to justice. Captain Avila, along with Lt. Lopez Sibrian, was said to have ordered the killing of the two Americans.

Were either of these two men ever brought to trial? Where is Captain Avila now? Where is Lt. Sibrian? Please Provide a current report on this matter to the committee.

MR. DERWINSKI: Despite the fact that they were both arrested and jailed on several occasions between 1982 and 1984, the courts have never upheld the charges against Lopez Sibrian. In 1983, the evidence against Lopez Sibrian (which were based on Capt. Avila's polygraphed testimony) and two civilians was found inadmissible by a lower court. The decision was upheld on appeal. Lopez Sibrian, however, has been jailed since early 1986 on terrorism charges related to a kidnapping ring. Avila himself was the prime witness against Lopez Sibrian and the two civilians. As such, he was not charged (under Salvadoran law, accomplices cannot testify against one another). However, once the Supreme Court had definitively ruled against the Salvadoran Government in its case against the three, and additional evidence regarding Avila's involvement had come to light, the Attorney General filed charges against him. Unfortunately, the charges against Avila were thrown out by the courts in 1985 on procedural grounds. The Salvadoran Government gathered additional evidence and appealed the decision in 1986. The case is under review by the Fifth Criminal Court of San Salvador. Avila is working for a private concern in El Salvador and his attorneys are contesting the reopening of the case against him.

MFO

SENATOR INOUYE: Mr. Under Secretary, I have noted two occasions on which the President used his special authorities to reprogram funds from the MFO in the Sinai to the Caribbean Peacekeeping Force.

On Page 59 of your Congressional Presentation Document, I find the statement that "any failure to follow through on your commitment (to provide $35,623,000 to the MFO in fiscal year 1988) would be perceived as a slackening of resolve to support the peace treaty..." This year the Administration proposes to provide $3 billion in assistance to Israel and $2,116,750 in assistance to Egypt.

Do you really believe that "any failure to follow through on our commitment" to the MFO would be perceived as a "slackening of resolve?

MR. DERWINSKI: From the substantial levels of economic support to Israel and Egypt, which you mention, it is obvious that we support the Peace Treaty. But, yes, I really do believe our failure to follow through on commitments, made by the President and the Secretary of State to Israel and Egypt, will be perceived as a slackening of resolve to support the Peace Treaty.

In 1979 the President told Israel and Egypt, unequivocably, that if the United Nations was unable to provide a peacekeeping force, he was prepared to "take those steps necessary to ensure the establishment and maintenance of an acceptable alternative multinational force." In 1981 it became apparent that the alternative force - the MFO - would be necessary and, subject to Congressional authorization and appropriations, we were willing to contribute one-third of the annual costs needed to maintain the force. Our failure now to meet the MFO commitment could be seen as an indication that we are not willing to do in 1988 what we were willing to do in 1981 and that could be perceived as a slackening of resolve.

SENATOR INOUYE: Were the reductions in MFO funding which the President made in fiscal years 1984 and 1985 not perceived as a "slackening of resolve?"

MR. DERWINSKI: It is unlikely that the FY-84 and 85 funding reductions were perceived as a "slackening of resolve," since U.S. contributions in those years were sufficient to meet our commitment to fund one-third of the MFO's annual costs.

SENATOR INOUYE: Why should the Congress fully fund the request for the MFO? Will this not just become a source for reprogramable funds?

MR. DERWINSKI: We should fully fund the MFO because it is a remarkably successful and effective international peace keeping force, which has contributed greatly to the strength and stability of peace between Egypt and Israel. There is no danger in the MFO becoming a source of reprogramable funds because Congress has mandated that any excess PKO funds be returned to the Treasury.

PEACEKEEPING OPERATIONS: UNITED NATIONS FORCES IN CYPRUS

SENATOR INOUYE: Mr. Under Secretary, you are requesting an increase in the U.S. contribution to UNFICYP, the United Nations Force in Cyprus. The Congressional Presentation Document states that the increase of $1,688,000 is required to offset an equivalent reduction in our FY 1987 contribution. The Congress is blamed for this reduction but, in truth, it came about because of Gramm-Rudman reductions favored by the President. Why does the Administration fault the Congress for this reduction in spending? Why have you not accepted the requirement for spending reductions? Requesting in Fiscal Year 1988 what you failed to obtain in FY 1987 does not help to balance the budget, does it?

MR. DERWINSKI: The Administration remains fully committed to reducing the deficit by reducing federal spending. The President's budget submitted for FY 1987 and the budget request you are now considering for FY 1988 were carefully framed to reflect this commitment. In FY 1987, however, actual appropriations made greater, disproportionate foreign affairs funding cuts, including funds for Peacekeeping operations and other categories of Security Assistance.

In the case of the U.S. contribution to the United Nations Force in Cyprus, the $1,688,000 total reduction to $7,312,000 was a cutback of almost 19 percent from the Administration's $9,000,000 FY 87 request. This represents a serious annual shortfall in the year's required funding for an operation that plays a vital role in the stability of the Eastern Mediterranean. It is important to make up this shortfall in the funding for FY 88.

UNFICYP serves an essential function in preserving peace and security in Cyprus, which is clearly in the interest of the United States. A breakdown in peace and security there would affect U.S. interests in regional stability and ties between two NATO allies. The United States should avoid any actions that could suggest that we are reducing our support for the UN Force on Cyprus and the stability of this vital region.

SENATOR INOUYE: Over the years, UNFICYP has been operating in the red. Contributions from UN members have not kept up with the costs of operations. The deficit from previous years has been estimated at $145 million. Our $1,688,000 shortfall pales by comparison, does it not? Should the Committee expect a request for funding to reduce the $145 million deficit in UNFICYP financing?

MR. DERWINSKI: We will continue our efforts to narrow UNFICYP's accumulated deficit by reductions in operating costs and by broadening the base of contributing nations. U.S. failure to bear a fair share of current expenses will, however, only set back these efforts.

ASSISTANCE TO NATO'S SOUTHERN FLANK
(GREECE AND TURKEY)

SENATOR INOUYE: Mr. Undersecretary, has the administration made use of the provision in last year's Defense Authorization Bill which allows the Defense Department to provide excess U.S. military equipment to Greece and Turkey?

MR. DERWINSKI: Yes, we have made use of this provision.

SENATOR INOUYE: What is the value of the equipment provided to Turkey?

MR. DERWINKSKI: The excess equipment that we are making available to Turkey under the Southern Region Amendment totals $117.384 million for the first tranche. This equipment would enhance and augment the Turkish armed forces' present capabilities. Discussions are underway with Turkish authorities to provide additional equipment for Turkey's needs.

SENATOR INOUYE: What is the value of the equipment provided to Greece?

MR. DERWINSKI: The excess equipment that we are making available to Greece under the Southern Region Amendment totals $96.3 million for the first tranche. This equipment would enhance and augment the Greek armed forces' present capabilities. Discussions are underway with Greek authorities to provide additional equipment for Greece's needs.

SENATOR INOUYE: Is the Administration required to report to the Congress on the type and value of equipment offered to foreign countries under this authority?

MR. DERWINSKI: Pursuant to section 516(c) of the Foreign Assistance Act, the Defense Security Assistance Agency (DSAA) notified Congress in March, 1987 of our intention to offer excess defense articles to Greece and Turkey. This notification, the first in a series of reports as additional equipment is identified, included a comprehensive list of the items we are offering to these countries.

SECURITY ASSISTANCE: GREECE/TURKEY/CYPRUS

SENATOR INOUYE: Mr. Secretary, what is the current state of affairs on Cyprus? Can you tell the committee what the respective positions of the parties to the Cyprus dispute are with respect to the efforts of the United Nations Secretary General?

MR. DERWINSKI: In his last report on the United Nations operation in Cyprus (covering the period December 1, 1986 to May 29, 1987), the Secretary General stated that a deadlock exists in his efforts to restart effective negotiations between the parties. He noted that distrust between the leaderships of the two communities remains deep; tension has risen over the question of Varosha; a potentially dangerous military build-up is taking place on the island; and the troop contributing governments are increasingly dissatisfied, both at the unfair and growing financial burden they have to bear and at the lack of progress on the political front. Despite the difficulties, however, the Secretary General affirmed his determination to explore with the parties measures which would create confidence, in the hope that it will be possible to resume the negotiating process and build on what has been achieved so far. We support the Secretary General and continue to urge the parties to the dispute to cooperate to the utmost with his efforts.

TURKISH AND GREEK MILITARY FORCES ON CYPRUS

SENATOR INOUYE: What information can you provide the committee with respect to the number of Turkish troops on the island of Cyprus? Has Turkey been moving additional troops onto the island?

MR. DERWINSKI: Turkish mainland forces on Cyprus have in recent years fluctuated between 22,000-30,000 troops. Their present strength could be at the upper level of this range.

SENATOR INOUYE: Has Turkey been modernizing the equipment of the troops it maintains on the island of Cyprus? Is this in violation of any agreement between the United States and Turkey?

MR. DERWINSKI: As a practical matter, it is to be expected that Turkish forces deployed to, and rotated from, Cyprus are likely to be equipped similarly to other units of the Turkish armed force. As part of its modernization program, the Turkish Army is upgrading its tanks with the M48A5 model. Turkish forces deployed on Cyprus are being equipped with this tank, as are Turkish forces elsewhere. The Presidential Determination of September 26, 1978, taken under the authority of the International Security Assistance Act of 1978, permitted resumption of full military cooperation with Turkey and eliminated previous conditioning of such assistance on Turkish actions with regard to Cyprus. At that time, regular units of the Turkish armed forces were deployed, as they are today, in Cyprus as well as on the territory of Turkey. In every year since 1978, we have provided military assistance to Turkey for the use of its armed forces. We do not believe there has been any recent material change in circumstances regarding Turkish use of U.S. military assistance which would warrant changing our approach to the provision of assistance.

SENATOR INOUYE: What of Greek Troops on the Island? Are they increasing in number?

MR. DERWINSKI: As Assistant Secretary Rozanne Ridgway testified March 3, 1987 before the House Foreign Affairs Subcommittee on Europe and the Middle East, Greece maintains an infantry unit of at least 950 men, a commando unit of 350, and a substantial number of officer specialists and other personnel seconded to the National Guard on Cyprus. We have seen claims that Greece is increasing its military presence on the island. We are examining these claims and will provide further information when available. The Republic of Cyprus National Guard consists of 12,000 to 13,000 men, with 30,000 immediate reserves, and another 30,000 second line reserves. Over the past several years the National Guard has added a significant number of heavily armed armored cars.

MILITARY ASSISTANCE PROGRAM: TURKEY

SENATOR INOUYE: Mr. Under Secretary, you are requesting the appropriation of $914.9 million in security assistance funding for Turkey in fiscal year 1988. These funds are requested in support of the current defense and economic cooperation agreement, the so-called DECA, between the United States and Turkey. Is that correct?

MR. DERWINSKI: Yes, sir. All FY 88 funds requested for Turkey support the DECA, which is the framework for our entire program of economic and military cooperation with the Republic of Turkey.

SENATOR INOUYE: Why has DECA not been ratified by the Turkish Government?

MR. DERWINSKI: The Turkish Government announced in April that it was deferring ratification of the DECA extension agreement of March 16, pending the outcome of various pieces of legislation in the U.S. Congress affecting Turkey. Among those items of legislation was the security assistance bill, specifically, levels of assistance for Turkey which might result from Congressional review of that bill, the 7:10 ratio between Greece and Turkey, and the proposed linkage between the presence of Turkish troops and tanks on Cyprus and the use by those forces of U.S. military materiel. In addition, Turkish officials cited the Armenian Resolution as a cause of concern.

SENATOR INOUYE: Under the terms of the DECA, the President of the United States pledges to make his "best effort" to obtain resources in support of the agreement. What are Turkey's responsibilities under the DECA?

MR. DERWINSKI: The DECA comprises a series of balanced obligations and commitments by both nations, in support of NATO, in which we are both members and fellow allies.

SENATOR INOUYE: The justification document indicates that under the terms of the Defense and Economic Cooperation Agreement, the United States has access to military airfields. I understand that these are called "co-located operating bases" or COBs. As you know from Senator Mikulski's earlier questions, last November, a committee staff member found U.S. equipment and vehicles stored in the open at Incirlik, Turkey. The equipment was subject to corrosion and other harmful effects of the weather. Under the DECA, this military hardware was to have been prepositioned and sheltered at various co-located bases in Turkey.

In a briefing for Codel Sasser, held at Sixteenth Air Force Headquarters at Torrejon, Spain in late June, the fact that this equipment continued to be stored out of doors was confirmed. To the committee's best knowledge, these NATO warfighting supplies remain in the open with no protection from the weather. Senator Mikulski raised this issue in her questions, but I believe she did not get a clear answer. Is this military hardware still being stored in the open? Why has Turkey refused to allow them to be sent to their preposition points and to be placed under protective storage?

MR. DERWINSKI: Despite the lack of ratification of the DECA, military-to-military cooperation on implementing the COBs has been proceeding. Detailed planning resulting from the technical agreements signed in January has progressed and all seven wartime host nation support technical agreements have been agreed to. This will permit joint logistic support planning to go forward and such logistic plans are being worked out by EUCOM as well as arrangements for the additional deployment of support equipment. I am told this will solve the specific problem of unsheltered storage of materiel at Incirlik. Since this is really a military issue, you may wish to ask DOD directly for its views. However, I am told DOD is pleased that the military-to-military relationship is continuing apace.

SECURITY ASSISTANCE PROGRAMS: BASE RIGHTS COUNTRIES

SENATOR INOUYE: Mr Secretary, what are the individual and total amounts the U.S. will provide in Fiscal Year 1988 assistance to the five "base Rights" countries of Spain, Portugal, Greece, Turkey and the Philippines?

MR. DERWINSKI: We have requested $280.0 million for Spain, $207.55 Million for Portugal, $436.25 Million for Greece, $913.5 million for Turkey and $266.172 million for the Philippines. This includes our request for Foreign Military Sales credits (FMS), Military Assistance Program grants (MAP), Economic Support Funds (ESF) and International Military Education and Training Grants (IMET).

SENATOR INOUYE: Is this assistance being provided under base rights agreements with each of these countries?

MR. DERWINSKI: A major element of the bilateral agreements that allow us to locate our bases in these countries is our "best efforts" pledge to seek security assistance funds necessary to help these countries modernize their forces and protect themselves. In this respect, these funds are being supplied in support of these agreements. However, it should be noted that these funds are largely repayable loans supplied in pursuit of our own national security and defense interests.

SENATOR INOUYE: Does the request for assistance to each of these countries reflect a "best efforts" pledge to obtain assistance? Are the amounts specified in each agreement? What are these specific amounts?

MR. DERWINSKI: Best efforts pledges are associated with our base agreements with each of these countries. The amounts are not contained in the agreements themselves, but rather are contained in other less formal documents, side letters or understandings between negotiators or senior officials.

Through such less formal exchanges, we promised to seek $500.0 million for Greece in FY 84. We also agreed to adhere to the principle of Section 620(c) of the Foreign Assistance Act which requires that our assistance programs maintain the balance of military strength in the region. For Turkey there is no fixed amount which we are committed to, although we have stated frequently that Turkey's security assistance requirements are in excess of $1 billion. We have a commitment to seek $400 million in FMS credits and $12 million in Ecomomic Support Funds (ESF) for Spain, of which we were able to provide only $105 million in FMS and $5 million in ESF in FY 87. For Portugal we have a commitment to seek a "rising trend" in security assistance levels up to $125 million, a target we have consistently missed during recent years. We have a commitment to the Philippines to seek $900 million in economic and military assistance over a five year period, or $180 million each year.

SENATOR INOUYE: For each country, please tell the committee whether there is a shortfall between the amounts contemplated under the current "best efforts" pledge and the amounts which have actually been provided?

MR. DERWINSKI: The Congressional reductions and country-specific limitations in FY 87 appropriations forced allocations below commitment and target levels for most base rights countries. Greece was earmarked at $435 million in FY 87 and Turkey was capped at $490 million; Spain and Portugal were allocated $105 million and $80 million respectively, well short of the targeted $400 million and $125 million we sought. In view of our severe budget constraints, even our request for FY 88 represents shortfalls. For Greece we are seeking $435 million in FMS credits. For Turkey we are asking for $785 million in military aid, which is $415 million short of the $1.2 billion annual assistance requirement necessary to maintain the Turkish modernization program. We requested $265 million in FMS and $12 million in ESF for Spain, this is $135 million short of our $400 million loan commitment and does not account at all for last year's drastic cuts in the Spanish program. For Portugal we have requested $125 million which is the level of our commitment, but this again fails to compensate for any of last year's reduction. For the Philippines we have requested $234 million, which is $54 million more than required to meet our $180 million commitment, but which is necessary to assist the government of Ms. Aquino.

SENATOR INOUYE: Which base rights agreements require renegotiation? When will negotiations take place?

MR. DERWINSKI: As you are aware, we are currently engaged in negotiations with the Government of Spain to renew our base agreement there which expires in 1988. We are planning to open preliminary discussions September 4, 1987 on our 1983 DECA with Greece. The Greek Government has repeatedly stated its plans to terminate this agreement in 1988. In Turkey, the 1980 DECA agreement remains in force. A recently negotiated extension of the agreement through 1990 is pending ratification by the Turkish cabinet. The Portuguese may request in 1988 a mid-term review of the Lajes base agreement according to the terms of the agreement, and The U.S.-Philippine agreements may also require review prior to its expirations in 1991.

MILITARY ASSISTANCE AND POLICE TRAINING

SENATOR INOUYE: Mr. Under Secretary, have military assistance funds been used to provide police training in Haiti?

MR. DERWINSKI: No military assistance funds have been used to provide police training in Haiti. However, some MAP funds were used to send a Military Training Team (MTT) to Haiti to train Haitian military instructors in the use of humane procedures for dealing with civil disturbances.

SENATOR INOUYE: How much funding has been provided?

MR. DERWINSKI: $35,000 for training expenses and $50,000 for equipment.

SENATOR INOUYE: Would you judge it to be effective?

MR. DERWINSKI: The team was very successful in preparing Haitian armed forces personnel in the conduct of non-lethal civil disturbance operations. One company was trained as a unit and convincingly demonstrated its new prowess against an actual rock-throwing, club-wielding opposition force. However, the number of personnel trained is just a small percentage of those required to successfully control unruly mobs in Port-au-Prince. The troops trained by the MTT were not deployed during the recent disturbances in Haiti.

SENATOR INOUYE: Has any thought been given to using the Caribbean Peace Force to help restore stability in Haiti?

MR. DERWINSKI: As far as we know, Haiti has not sought any assistance in actual operations within Haiti, only training. The Haitians are very proud and nationalistic. The presence of foreign troops in an actual operational mode might not be helpful in increasing stability.

GUARANTY RESERVE FUND

SENATOR INOUYE: Mr. Undersecretary, as you know, the Congress is becoming increasingly concerned with the unfunded contingent liability of the United States for FM loans extended to countries which are experiencing financial difficulties.

It has been explained to me that FMS loans are actually Department of Defense guaranteed loans which are issued by the Federal Financing Bank.

Prior to 1980, these loan guarantees were financed by annual appropriations tied to a percentage of the FMS guaranteed loan program.

Annual appropriations were 25 per cent of the total from the inception of the program to FY-1974, and were reduced to ten per cent of the total annual program from FY-1975 tp FY-1980. In December 1980, the requirement for a fractional reserve was removed.

However, the December 1980 legislation contemplated that the fund would be maintained at not less than $750 million. This was understood by both the Department of State and the Defense Security Assistance Agency.

On December 16, 1980, the fund was capitalized with the $1,170,000,000 balance remaining from the annual appropriations.

What is the present balance of the Guarantee Reserve Fund?

MR. DERWINSKI: The balance of the Guaranty Reserve Fund as of May 31, 1987, was a negative $147 million.

SENATOR INOUYE: Do you agree that the Guaranty Reserve Fund must be restored to the $750 million level?

MR. DERWINSKI: The Administration does not believe that the Guaranty Reserve Fund needs to be restored to the $750 million level. The depletion of the Guaranty Reserve Fund is due primarily to disbursements of two countries: Egypt and Turkey. Between them they have absorbed over $1 billion in Guaranty Reserve Fund money. Disbursements for Turkey are some $491 million. $247 million was from large debt reschedulings in 1981 and 1983. $244 million is due to Turkey's pattern of deferring payment of guaranteed FMS debt for one year. This pattern began in December 1985.

With Egypt, the Guaranty Reserve Fund has had to disburse $539 million to keep the Federal Finance Bank whole. Egypt, too, defers payment on FMS loans for up to a year, paying just in time to avoid Brook Amendment sanctions. Egypt is now in the process of a major rescheduling of its foreign debt. $1.2 billion of this debt comes under Guaranty Reserve Fund guarantees.

The prospective impact of Egyptian rescheduling has dictated a reappraisal of existing authorities to manage the guarantee arrangements with the Federal Finance Bank. As a result of this reappraisal, the Treasury has has agreed to a new arrangement with respect to rescheduling. It provides for the Federal Finance Bank to receive payment directly from Egypt (on the rescheduled payment date) for those debts which are rescheduled. For missed payments on regular debt when the Guaranty Reserve Fund is temporarily illiquid, the payments will be deferred until such time as the fund has a positive cash balance. Any delay in payment io the Guaranty Reserve Fund for either ordinary or rescheduled debt will produce interest so that present value of the loans is preserved. Thorough review of these arrangements with Treasury, State, and the Defense Security Assistance Agency legal counsel finds that they are well within the authority of the Treasury to implement.

GUARANTY RESERVE FUND TEN DAY ARREARS

SENATOR INOUYE: Mr. Undersecretary, I am informed that a FMS loan is determined to be in default or in arrears when a payment is not received within ten days following the payment due date. On the eleventh day the Defense Security Assistance Agency, as guarantor, must remit payment from the Guaranty Reserve Fund to the Federal Finance Bank on behalf of the borrowing country.

Is that your understanding of how the Guaranty Reserve Fund works?

MR. DERWINSKI: Your understanding of how the Guaranty Reserve Fund works was essentially correct until recently. With the prospect of Egypt rescheduling her debt, $1.2 billion of which comes under Guaranty Reserve Fund guarantees, the Administration had to reappraise the existing authorities to manage the guarantee arrangements with the Federal Finance Bank. I explained the result of this reappraisal in my previous answer on the Guaranty Reserve Fund.

SENATOR INOUYE: Please submit to the Committee the legal opinion of the General Counsel of the Department of State and the Opinion of the General Counsel of the Department of the Treasury on the question: Must the Defense Security Assistance Agency, as guarantor, remit payment from the Guaranty Reserve Fund to the Federal Finance Bank on behalf of the borrowing country whenever a payment is not received from a borrowing country within ten days following the payment due date?

MR. DERWINSKI: The General Accounting Office has asked the Departments of State, Treasury, and Defense for their legal opinions on this question. We shall provide this information to the Committee when the drafting of the opinions is complete.

SENATOR INOUYE: Mr. Undersecretary, as of today, how many countries are more than ten days in arrears on payments due on their FMS loasn?

MR. DERWINSKI: As of June 30, 1987 26 countries were more than ten days in arrears on payments due on their FMS loans.

SENATOR INOUYE: What is the total dollar amount of the arrearages?

MR. DERWINSKI: As of June 30, 1987 the total amount of the arrearages was $1.126 billion.

SENATOR INOUYE: The Guaranty Reserve Fund is effectively depleted, is it not?

MR. DERWINSKI: The Fund is effectively depleted. At the end of May 1987 it had a negative balance of $147 million.

SENATOR INOUYE: What is the total contingent liability of the United States for FMS loans?

MR. DERWINSKI: We compute this figure at the beginning of each fiscal year. As of October 1, 1986, our total contingent liability for the guaranteed FMS loans was $49.8 billion.

SENATOR INOUYE: These loans are backed by the full faith and credit of the United States, are they not?

MR. DERWINSKI: The full faith and credit of the United States backs these loans.

GUARANTY RESERVE FUND: USE OF MAP AND FMS

SENATOR INOUYE: Mr. Undersecretary, Congress has provided you with the authority to use MAP and FMS funds to replenish the Guaranty Reserve Fund. How do you intend to use this authority?

MR. DERWINSKI: We are aware of this authority. However, we do not plan to use it. At present funding levels, the replenishment of the Guaranty Reserve Fund from the security assistance account would reduce these programs by that amount and further circumscribe our ability to provide adequate levels of assistance to friends and allies.

INTERNATIONAL MILITARY EDUCATION AND TRAINING: YUGOSLAVIA

SENATOR INOUYE: Mr. Undersecretary, in March of 1985 the President used his special authorities under the foreign assistance act to provide international military education and training assistance (IMET) to Yugoslavia. His decision was based on the determination that such assistance to Yugoslavia is "important to the security interests of the United States."

Do you propose to provide additional IMET assistance to Yugoslavia in Fiscal Year 1988? Why is this program not listed in the Training Programs section of the Congressional Presentation Document?

MR. DERWINSKI: Nonaligned Yugoslavia occupies a strategically important position on NATO's southern flank. Since the Yugoslav-Soviet break in 1948, an independent Yugoslavia has denied the Soviets and their allies access to a long stretch of the Adriatic Coast. The United States has striven consistently to preserve the independence and territorial integrity of Yugoslavia.

IMET is an important element of that strategy and we propose to continue IMET assistance to Yugoslavia for Fiscal Year 1988. The program is not listed in the "Training Programs" section of the Congressional Presentation Document since this section lists programs for countries that have IMET programs as their only security assistance relationships with the United States.

SENATOR INOUYE: What specific training is to be offered? This training is to be offered in 1988, so the planning should be completed and it should be possible to answer with specific information.

MR. DERWINSKI: The proposed IMET program will provide technical cooperative training and limited professional military education. Specifically, the FY-88 IMET program for Yugoslavia at the $100,000 allocation level would include CONUS training of approximately six professional military students and two technical students.

SENATOR INOUYE: Yugoslavia is a Communist country. It holds several hundred political prisoners and imposes many restrictions on individual political behavior. Will the President again use his special authorities to provide assistance to this Communist country?

MR. DERWINSKI: Yugoslavia is a nonaligned country. During the past two years United States security assistance has broadened various aspects of our relationship with Yugoslavia. Technical training (such as engineering courses) and humanitarian cooperation (such as exchange of medical information) have been foundations of the effort. A continued security assistance relationship is in our national interests and thus will be continued. No special authority is required to provide security assistance to Yugoslavia.

SENATOR INOUYE: Will any other Communist countries receive IMET training under the program you have placed before us?

MR. DERWINSKI: There are no Communist bloc countries programmed to receive IMET in FY-88.

PROLIFERATION OF RECIPIENTS

SENATOR INOUYE: Mr. Undersecretary, much is said this year of the need for budgetary restraint. Earlier this year we learned of the elimination of U.S. contributions to a program helping third-world women enhance their role in development. This amounted to $215, 000 last year.

We have also learned of reductions in U.S. contributions to UNICEF, the Child Survival Fund, health and nutrition programs, and many others --- all for budgetary reasons.

The amounts are small, but it is said that every program must bear its share of the needed spending reductions.

In view of the requirement for budgetary restraint and the sharp reductions or even elimination of other programs how do you justify grant assistance for military training for the following IMET programs for relatively wealthy countries?

Austria	$ 60,000	Venezuela	$200,000
Korea	$2,000,000	Iceland	$ 40,000
Bahamas	$ 100,000	Barbados	$ 70,000

Which of these countries cannot afford to pay for its own military training?

MR. DERWINSKI: Although each of these countries is relatively well off on a per capita basis and, with a few exceptions, could afford to pay for its own military training, the International

Military Education and Training program is a low-cost foreign policy instrument that provides a valuable channel of communication and influence with these foreign militaries. In addition to transmitting military skills and U. S. military doctrine, IMET contributes to U.S. policy objectives by providing significant opportunities for access to the civilian and military leadership of other countries. In several countries, the program not only supplements the country's indigenous training effort but frequently is the only major alternative to Soviet-oriented programs. The program supports U.S. interests by continuing to expose a significant sector of present and future military leaders to American values. As in the past, these personnel are likely to hold future positions of influence or prominence in their countries. In addition, English language training, which is essential to much of the training, has contributed directly to the increased rapport and in the long term to a greater understanding of the United States. This training may not be high in the foreign governments' priorities and would not be funded at least to the level that we believe is essential to maintain adequate channels of communication, and thus we provide assistance even to apparently wealthy nations.

SENATOR INOUYE: What specific training do you propose to provide Venezuela?

MR. DERWINSKI: The FY-88 IMET program for Venezuela at the $200,000 allocation level would include CONUS training of approximately 28 professional military students, nine resource management students, and 21 technical students; CONUS training of approximately 75 students at the USAF and U.S. Navy schools in Panama; and one Navy mobile training team.

SENATOR INOUYE: I assume that the provision of military training is the result of detailed assessments of what kind of training is needed in the recipient country: surveys are made, specific courses are offered to meet identified needs, and training slots are held open for specific countries. Is that correct?

MR. DERWINSKI: Military training requirements are identified by surveys and selected from the catalogue of courses that are available to foreign governments. Training is scheduled only after a candidate is identified who meets the prerequisite requirements and can be matched with an available course slot.

SENATOR INOUYE: Please provide the committee with a country list of courses to be financed by the requested country levels of assistance.

MR. DERWINSKI: The IMET program has traditionally been split on average at about 25 per cent professional military education (PME) and 75 per cent technical training of various types. Most countries receive one or more slots at a military senior service school and two or more at intermediate schools, such as command and staff courses. In addition to PME, we emphasize resource management training for personnel and financial resources. Technical training is matched with requirements based on the type of equipment the country has received. Military training courses are identified by country request and course numbers at a very detailed level. Annually the IMET program plans for more than 7,000 students in more than 15,000 courses from 106 countries. This is reflected in a computer listing of approximately six inches of double-sided single-line print. However, given continuing fluctuations in the availability of individuals due to personnel changes, medical difficulties, failure to meet language requirements, personal problems and other circumstances, this voluminous list is constantly changing. The accuracy of any single list is very doubtful. We believe that individual country information, as we have provided in response to country-specific questions posed in these hearings, would be more informative and useful and we will be happy to provide these as desired by the Committee or staff.

MOBILE TRAINING TEAMS

SENATOR INOUYE: Mr. Undersecretary, two years ago, in its Fiscal Year 1986 report, this committee noted its interest in the use of mobile training teams to provide in-country training under the IMET program. The committee stated its belief that "training provided to foreign countries by mobile training teams working within the context within which the trainees themselves operate is more likely to be responsive and suited to local conditions."

What portion of the Fiscal Year 1988 training request will be used to fund training by mobile training teams in foreign countries?

MR. DERWINSKI: The FY-88 IMET program would include approximately two per cent of the $56 million allocation level devoted to mobile training teams and other English-language support personnel in country.

SENATOR INOUYE: Is the use of mobile training teams not more cost-effective than the practice of bringing trainees to the United States?

MR. DERWINSKI: The use of mobile training teams is usually more cost effective in that a large number of students can be trained in-country without normal expenses associated with travel and training in the U.S. However, the use of mobile training teams for their apparent cost benefits runs the risk of compromising the accomplishment of important IMET objectives. These objectives include increased understanding between the United States and foreign countries and increased awareness of basic issues of internationally recognized human rights [FAA 1961, as amended Ch. 5, Sec. 543 (1) and (3)]. Training in the United States provides exposure to the U.S., the American people, our political institutions, democratic values and provides the best opportunity to accomplish these objectives. Since we hope to influence potential key leaders training of officers in professional military courses where the best and the brightest officers are usually selected is especially important. In support of these objectives mobile training teams should primarily focus on technical and maintenance training of enlisted personnel.

SENATOR INOUYE: In its report of two years ago, the Committee also indicated that it would be interested in meeting with some of these military officers who come to the United States to learn more of our way of life. Unfortunately, it appears that few, if any, of these officers are ever exposed to the legislative branch of Government.

Mr. Undersecretary, what portion of your fiscal year 1988 training request will be used to fund orientation vists to the United States by foreign military officers?

MR. DERWINSKI: The FY 1988 IMET program would include approximately ten orientation teams at an approximate cost of $250,000.

QUESTIONS SUBMITTED BY SENATOR LEAHY TO MR. DERWINSKI

FY 1988 SECURITY ASSISTANCE BUDGET

SENATOR LEAHY: Mr. Chairman, I am very pleased to be here today. This hearing is of particular interest to me. It will come as no surprise that I am deeply concerned about the unprecedented increases in the military assistance budget during this administration.

I do not believe it is what the Congress intended when it wrote the Foreign Assistance Act twenty-six years ago.

At the very beginning of that Act, Congress declared that a principal objective of our foreign policy should be to help the developing countries build strong economic, political and social institutions. To achieve that objective, the Act requires Congress to emphasize four goals:

- The alleviation of poverty among the world's poor majority
- The promotion of conditions to help developing countries achieve self-sustaining growth with equitable distribution of benefits.
- A respect for individual civil and economic rights.
- The integration of the developing countries into an open and equitable international economic system.

Those are admirable goals, and I subscribe to them. I am also aware that we spend billions of dollars on economic and development assistance. I support those programs, although I have often raised concerns when some of those funds were being squandered by corrupt and incompetent foreign officials, rather than to pay for the basic needs of the poor. That is one reason I am currently cosponsoring legislation with Senator DeConcini, to make a portion of foreign aid directly available for small loans in local currencies to the poorest people overseas.

But since 1980, the security assistance budget has increased almost 300 percent. This has occurred during a time of drastic cuts in important domestic programs--loans for American farmers and students, job training for mothers on welfare, cancer research, legal services for the poor, cleaning up chemical waste. Those and many other programs have suffered, while American taxpayers have been paying for military hardware for countries that can't even feed their own people.

If we are going to continue to give foreign aid, and I am one who believes we should, it should at least be used in ways that it will do the most good for people who need it most. That is what the Foreign Assistance Act requires.

I reject the theory, implicitly or explicitly advanced by this administration, that we can somehow fulfill that responsibility by spending billions of dollars to strengthen the militaries of the developing countries.

We are spending $75 million on new jet fighters for Honduras, the poorest country in Central America, where there is only one doctor for every 3000 people, only 44% of the population have safe water to drink, and the per capita income is $700.

We're asked to pay to train military officers in Austria, one of the world's richest countries, and in Sao Tome and Burkina Faso--countries I bet not one in ten thousand Americans has ever heard of.

It is obvious to me that--behind the rhetoric about strengthening democracy and resisting Soviet influence--in some cases we are simply using military aid to win friends in foreign governments, not to address any legitimate security concerns of the United States or even those countries. This concerns me, and I am pleased to have a chance to ask the new Assistant Secretary for Security Affairs about how he plans to spend next year's budget.

MR. DERWINSKI: Our security assistance request for Fiscal Year 1988 is, we believe, a balanced and prudent mixture of economic and military assistance at levels which take into account both current budget constraints and the fundamental national interests and global responsibilities of the United States as a world power.

The programs we have presented for your approval will advance the goals of peace and stability in the Middle East and other vital regions of the world. They will strengthen our major allies and are linked to the facilities provided to us by these allies and other friendly nations. They will help deter aggression and encourage the development of democratic institutions and the evolution of free market economies. They will foster greater understanding of U.S. policies and free world values, including the promotion of internationally recognized human rights. And, they will forge ties with future military and political leaders that will prove useful for years to come.

The Presentation Document submitted in justification and support of our request spells out in more detail how security assistance furthers these important goals and objectives -- indeed, how this assistance is an irreplaceable tool of our foreign and defense policy. I am, however, very happy to answer the specific questions you have in mind, Senator Leahy.

MAP PROGRAM FOR BELIZE

SENATOR LEAHY: The United Kingdom has an 1800 troop garrison in Belize to guarantee its security. If any of its neighbors made a serious threat against that country, the U.S. could act quickly and decisively. You are proposing to spend $1 million for M-16's, ammunition and other military equipment for Belize. That's twice what we gave last year. Why is this $1 million necessary when there are already 1800 well-equipped British troops there?

MR. DERWINSKI: Our modest military assistance program in Belize is designed to complement the efforts of the British rather than to supplant it. Although the British have indicated that the garrison will remain in Belize until that country's territorial dispute with Guatemala is settled, neither we nor the British foresee an indefinite stay. The 670-man Belize Defense Force (BDF) must be strengthened to effectively protect Belizean and U.S. interests.

Our policy goals with regard to Belize include improved stability in the Caribbean and Central American regions, preservation of a functioning democracy, and the suppression of narcotics traffic. Although one of the BDF's missions is to protect against an external threat, it is also charged with assisting the police in internal security and narcotics operations. Preparatory to the day when British forces are withdrawn and the BDF will be solely responsible for Belize's security, U.S. military assistance to Belize focuses on providing support to the BDF in the form of standardization of individual weapons for the entire active force and improvement of tactical communications.

BOLIVIA: BALANCE OF PAYMENTS SUPPORT

SENATOR LEAHY: Bolivia's Gross Domestic Product is 30 percent below what it was in 1980 and expected to fall by another 3 percent this year. You're proposing $30 million in ESF for Bolivia. How much of this is for balance of payments support? How is that going to make the slightest difference in that country's disastrous economic situation?

MR. DERWINSKI: All of the $30 million ESF requested for Bolivia in FY88 will go toward balance of payments support. This assistance will help reduce the balance of payments gap by financing imports of key raw materials and intermediate goods. Local currency generated by ESF dollars will be used as counterpart to US AID and multilateral bank development projects, which helps to assure the flow of funds from these sources. This assistance is critical to helping the Government of Bolivia sustain the progress it has already made in stabilizing its economy. At great political risk, the current government's stringent economic reforms have stopped hyper-inflation, stabilized the currency, rescheduled official debt, revised tax laws, and qualified the country for additional support from the IMF.

BOLIVIA: MILITARY ASSISTANCE AND COCA ERADICATION

SENATOR LEAHY: You are proposing $8.4 million for military aid to Bolivia. Is that to combat drugs? How much cocaine has been eradicated since U.S. "Operation Blast Furnace?" Is more or less cocaine being produced in Bolivia today than two years ago? Why isn't that $8.4 million used to help cocaine farmers switch to other crops?

MR. DERWINSKI: Almost all of the $8.4 million in military assistance (MAP) and military training (IMET) funding requested for Bolivia in FY88 will be used to provide basic training, equipment, and equipment support (spare parts) for units directly involved in the war on drugs. The assistance not tied directly to combatting narcotics is still intended to give the Bolivian Armed Forces the skills and equipment needed for a minimum operational capability against narcotics producers and traffickers.

The military assistance requested for FY88 is crucial to the Bolivian Government's anti-narcotics campaign because it provides training and equipment the Bolivian military desperately needs to support the police forces in interdiction and eradication operations. The Bolivian Government will use its own funds to compensate farmers for eradication of their coca crops. AID funded project assistance will be provided to assist the farmers' transition to other commercial crops.

Since Operation Blast Furnace ended in November 1986, no cultivated coca has been eradicated to our knowledge. We have been working intensely with the Bolivian Government to develop a long-term plan, based on effective and sustained interdiction, to minimize the economic benefits from coca cultivation and to make farmers more willing to voluntarily eradicate their crops. The three year plan calls for one year of voluntary eradication, during which farmers would receive incentive payments, followed by two years of forced eradication. As part of our bilateral agreement supporting the plan, Bolivia has agreed to eradicate 1800 hectares of coca over the next 12 months.

We estimate that coca cultivation in Bolivia is increasing nearly 10% per year. The potential production of cocaine base is also rising, but increased seizures and destruction of refining laboratories is keeping cocaine hydrochloride (HCL) production fairly static. If enforcement efforts continue in Bolivia, we expect cocaine base and HCL production to decrease in 1987.

TURKISH MILITARY PRESENCE ON CYPRUS

SENATOR LEAHY: I want to follow up on the questions Senator DeConcini asked about Turkey's occupation of Cyprus. According to the Congressional Presentation Document, U.S. aid to Cyprus is to "promote cooperation between Greek and Turkish Cypriot communities." Do you support an amendment to prohibit the use of U.S. military equipment by Turkish troops on Cyprus?

MR. DERWINSKI: We strongly oppose. On the one hand, the Presidential Determination of September 26, 1978, taken under the authority of the International Security Assistance Act of 1978, permitted resumption of full military cooperation with Turkey and eliminated previous conditioning of such assistance on Turkish actions with regard to Cyprus. At that time, regular units of the Turkish armed forces were deployed, as they are today, in Cyprus as well as on the territory of Turkey. In every year since 1978, we have provided military assistance to Turkey for the use of its armed forces. We do not believe there has been any recent material change in circumstances regarding Turkish use of U.S. military assistance which would warrant changing our approach to the provision of assistance. Perhaps most importantly, we do not believe that the proposed legislation prohibiting use of equipment on Cyprus will promote progress towards a settlement. To the contrary, a settlement can only come about through a process of negotiation involving the parties to the Cyprus dispute who must address all the issues on a very difficult agenda. We believe that experience shows that efforts to isolate only one of these issues --in this case, troop presence and strength -- and to exert pressure on that issue, simply do not work.

SECURITY ASSISTANCE TO THE EASTERN CARIBBEAN

SENATOR LEAHY: Why should we spend $35 million for security assistance to the Caribbean Islands? Why do Antigua, Barbados, St. Vincent, to name a few, need U.S. military aid? Who is their enemy?

MR. DERWINSKI: U.S. security assistance programs emphasize strengthening democratic institutions and values by helping nations meet their economic development and basic security needs. Most of our security assistance funds go toward economic objectives such as structural adjustment and infrastructural development. Military assistance is only a small portion of the total security assistance program.

In FY 1987, our total foreign assistance to the Eastern Caribbean was $47.5 million. From this total, $22.9 million went to direct assistance and $19.2 million to budgetary support. Only $5.4 million went to military assistance. For FY 1988, $53.4 million has been requested in foreign assistance, with $21 million for direct assistance, $25 million for budgetary support, and $7.4 million for military assistance.

In terms of the Eastern Caribbean, the U.S. actively supports and cooperates with the Eastern Caribbean's Regional Security System (RSS). The RSS, established under a 1982 Memorandum of Understanding among various Eastern Caribbean states, was developed in response to

local concerns that armed insurgents could threaten constitutionally elected governments.
These concerns were based on three such incidents, on Grenada in March 1979 and twice on Dominica in 1981. Several RSS member states participated with our Armed Forces during the Grenada Rescue Operation in 1983 and the ensuing Caribbean Peace Force from 1983 to 1985.

The RSS is a multi-operational and a multi-national organization concerned not only with internal or external military threats but also narcotics interdiction, search and rescue, customs and excise, disaster response, and maritime affairs. Basic costs for the Eastern Caribbean Special Service Units and Coast Guards are financed by the countries in the area. Extra costs beyond the resources of those countries are met through our Military Assistance Program (MAP) and International Military Education and Training (IMET) Program as well as assistance from the United Kingdom and Canada. It is important to note that the $7.4 million military aid requested for FY 1988 and FY 1989 concentrates primarily on maintaining and sustaining the equipment, facilities and training programs previously provided. Aside from providing MAP and IMET funding, the United States also participates in joint military training exercises with the RSS members, improving their ability to interface with one another and with American units in the event of a crisis.

ECUADOR: MILITARY ASSISTANCE FOR NARCOTICS CONTROL

SENATOR LEAHY: Why the $7.5 million for helicopters, guns, ammunition and other equipment for the Ecuadorean military? Is this to combat drugs? Why isn't that the responsibility of the civilian police?

MR. DERWINSKI: The Military Assistance Program (MAP) funding requested for FY88 would be used to purchase vehicles, helicopters, communications gear, medical equipment, small arms, automatic weapons, ammunition and spare parts to provide more effective government control in the sparsely inhabited northern border areas now freely transited by terrorist groups and narcotics traffickers. The scale of the problem, combined with the arms and tactics used by terrorist bands and drug traffickers, make it one that can be handled more effectively by the military than by the civilian police.

ASSISTANCE TO EQUATORIAL GUINEA

SENATOR LEAHY: The per capita Gross Domestic Product of Equatorial Guinea is $100-200. Why spend $1 million for a ship to patrol its Exclusive Economic Zone, and only half that amount for development assistance?

MR. DERWINSKI: The United States is one of several aid donors to Equatorial Guinea. Spain, the former colonial metropole, bears the bulk of the financial burden for general assistance, while the United States targets for rehabilitation specific sectors of the nation's ravaged economy. We expect to increase our aid to Equatorial Guinea with the introduction of a modest Peace Corps presence in the coming year. Volunteers will help set up agricultural cooperatives and train individuals to manage them, meeting a basic development need.

With its two Soviet-made patrol boats inoperable and an understrength army, Equatorial Guinea has next to no nationaldefense capability. In addition, it needs a means of enforcing its rights against plundering of its waters by Soviet fishing vessels, which have heretofore overfished the Gulf of Guinea unchallenged. We have been asked to help. Given the expanse of territory the patrol boat must cover, the Equatorial Guinean's request is a very modest one, and poses no threat to the interests of other nations of the region.

MILITARY ASSISTANCE TO GABON

SENATOR LEAHY: Why should we finance armored cars and machine guns for Gabon? At what interest rate? How much will this cost U.S. taxpayers?

MR. DERWINSKI: Gabon is a moderate, pro-Western nation which has consistently supported the U.S. on a wide-range of regional and international issues. Our military assistance program in Gabon seeks to promote defense cooperation between the U.S. and Gabon and to show our support for a government which has been a force for stability in the region.

Specifically, the $2.5 million in FMS credits requested for FY88 would be used to finance the purchase of vehicles and rifles, thus assisting the Government of Gabon to modernize and improve the mobility of its relatively small (1,700 man) army. At present, the Department of Defense is changing its method for determining interest rates; however, it is estimated that the new rate will be in the area of 8.5 percent. Although granting the credits would thus require an initial outlay of $2.5 million, Gabon has considerable oil wealth and boasts sub-Saharan Africa's highest credit rating. It would have no foreseeable difficulty meeting interest and principal payments, which will ensure that no loss is suffered by US taxpayers.

MAP FOR GUINEA

SENATOR LEAHY: Why give Guinea, one of Africa's least developed countries with a per capita Gross National Product of $300, $3 million in MAP? Wouldn't that money be better spent on education, health care, or other development needs?

MR. DERWINSKI: We are well aware of Guinea's urgent need for development, and are requesting $6.5 million in development assistance for FY-88. In addition, we have requested $3 million in PL-480, Title I food and $5.4 million in Title II. Our MAP program consists primarily of providing Guinea coastal patrol boats, giving Government of Guinea the wherewithal to protect its offshore exclusive economic zone, which contains some of the world's richest fishing areas, from poaching and illegal exploitation by the Soviets and other foreign fishing fleets. Through better enforcement of various fishing agreements, Guinea increases its control over the development of this valuable resource. Not incidentally, our security assistance program offers Guinea an alternative to the Soviet Union as a source of supply, training and general orientation for the military in this strategically important country.

HAITI MILITARY ASSISTANCE

SENATOR LEAHY: Haiti is the most desperately poor country in this hemisphere. You are requesting $4 million for MAP. Why is giving guns and trucks to the Haitian army the way to address the problems causing social unrest in that country?

MR. DERWINSKI: No guns will be part of our military assistance to Haiti; all our military assistance to Haiti is nonlethal. Economic assistance will total approximately $100 million. Thus the overwhelming part of our assistance will be directed to economic development. Our substantial economic assistance is complemented by a limited and carefully-developed program of nonlethal security assistance to the Haitian armed forces, because neither democracy nor economic development can succeed in an environment of chaos, violence, and fear, which extremist forces on both ends of the political spectrum can exploit. The purposes of our security assistance are to put the Haitian armed forces on a professional footing after years of deliberate neglect by their own political leaders, and to give them the skills and means to maintain order in a manner respectful of human rights.

MADAGASCAR

SENATOR LEAHY: Madagascar is one of Africa's poorest countries. I suspect few Americans know where it is. You are proposing $1 million in MAP, and $75,000 to train 5 military officers in the United States. Why is this a higher priority than helping Madagascar's or our own farmers?

MR. DERWINSKI: U.S.-Malagasy relations have improved considerably over the past few years as the Malagasy continue to look toward the West and away from the Soviet Union for support and friendship. The U.S. encourages Madagascar's move toward the West. President Ratsiraka has recently reaffirmed his commitment to non-alignment and economic reform. Military assistance funds will be used primarily to acquire additional engineering equipment, construction materials, and training for operations and maintenance. This support will not threaten regional stability or lead to a regional arms race. With the exception of a few thousand dollars for medical supplies, all funds have been used to purchase Caterpillar earth moving and road building equipment. The IMET program has been used both to train the Malagasy military in the operation and repair of this equipment and to educate officers through professional military courses.

U.S. development assistance to Madagascar is designed to help Madagascar achieve higher per capita agricultural production and move toward rice self-sufficiency in ways consistent with improving soil and forest resources.

The Madagascar Agriculture Rehabilitation and Support (MARS) project supports improved policies, better resource management, and more extensive applied research in the agriculture sector, together with a farming systems-based area production program. Under MARS, Madagascar is importing $6 million of Caterpillar road repair and Ford farm equipment. This project also provides technical assistance to the Government of Madagascar (GDRM) to liberalize the economy and foster private enterprise activities.

The U.S. has also provided over $2 million to the International Rice Research Institute (IRRI) to help introduce new rice varieties that may produce up to 40 percent higher yields.

In addition, PL 480 Title I counterpart funds, totaling $40 million (FY 1981-85), have been designated for use in primarily farm-level rehabilitation activities.

In August 1986, Madagascar signed the first agreement under the U.S. Food for Progress Program. This program grants 72,000 metric tons of rice over a three-year period in partial support (with the World Bank and the World Food Program) of the GDRM's efforts to remove all controls from the production and marketing of rice.

MOROCCO

SENATOR LEAHY: You are proposing $50 million in MAP for Morocco. You also requested $20 million in FY 87 supplemental security aid to Morocco, and the Appropriations Committee recently agreed to $10 million in FMS loans. Besides the simmering dispute with Algeria over the territory of Western Sahara, what is Morocco's security problem? Have you made this aid conditional on improvements in human rights in Morocco?

MR. DERWINSKI: Morocco's security concerns primarily relate to Algeria and the Western Sahara as implied by your question. U.S. military assistance in recent years has been provided at a level which is insufficient to sustain already supplied U.S. equipment. U.S./Moroccan military cooperation continues to expand rapidly and is of great strategic importance to the United States. Our military assistance is not conditional on improvements in human rights in Morocco. As reported to Congress, Morocco's human rights record has improved. Morocco's relatively open society is known for moderation and religious tolerance. Moroccan military forces are in the Western Sahara occupying defensive positions along the frontiers of the territory, securing Morocco's administration of the territory. In the past six months there have been several Polisario attacks along the berm.

GUATEMALA: MILITARY ASSISTANCE

SENATOR LEAHY: You have requested $7 million in MAP and $600,000 in IMET for Guatemala. From 1961-74, the United States spent $6 million to train 32,000 Guatemalan police, including the top police command. Yet Guatemala's police forces failed to prevent, failed to investigate, and in fact directly participated in the worst blood bath in the region's history. Between 1970-73, 15,000 Guatemalans disappeared. Between 1978-80, according to Amnesty International, 5,000 civilians were seized without warrant and killed. In the early 1980's, the security forces applied what was called a "scorched earth communist" policy in villages suspected of harboring rebels, resulting in, according to Amnesty, the deaths of thousands of Indians.

Despite the 1985 election of a civilian president and efforts to control these abuses, violations of human rights continue. While disbanding the notorious DIT police unit, President Cerezo has maintained the Army intelligence agency G-2, identified by human rights monitors as the core of the death squads, and there have been no arrests of officers for abuses of human rights. What guarantees are there that the military aid you are proposing to give Guatemala in FY 88 will not be misused as such has been in the past?

MR. DERWINSKI: The change in the human rights situation in Guatemala has been dramatic and noted by all impartial observers. The government of President Cerezo is committed to continuing this improvement and there is no evidence that that commitment will ever weaken. Further, there is a qualitative difference between the Cerezo government, freely elected and civilian-controlled, and its predecessor military regimes; we do not believe they are at all comparable. We are, however, confident that the Cerezo government merits the modest military assistance we propose and fully intends to use it in a manner consistent with our own concerns on human rights.

SENATOR LEAHY: What conditions will you put on this aid to insure that these funds are not used to violate human rights?

MR. DERWINSKI: MAP and IMET programs are well-controlled in general and, in this case, hardly amenable to fostering human rights abuse. Our MAP program centers on spare and replacement parts for aging Guatemalan materiel, medical support systems, and clothing. The IMET program centers on English language and management courses.

SENATOR LEAHY: Will the aid be only nonlethal?

MR. DERWINSKI: As we stated above, the aid is nonlethal.

SENATOR LEAHY: Will it be conditioned on the continuation of civilian government?

MR. DERWINSKI: Our military assistance to Guatemala is already so conditioned by Congress.

SENATOR LEAHY: On the prosecution of members of the police and military who violate human rights?

MR. DERWINSKI: Guatemalan military officers and enlisted men are not immune from prosecution. We know of a number of recent cases (51 enlisted men, 15 officers) in which military men have been arrested and tried for various crimes. We do not condition military assistance on prosecution of possible past abuses. Such prosecution is an internal matter for the government of Guatemala and its court system; we encourage and assist in judicial reform to help ensure that no class of citizen in Guatemala remains either above the law or without recourse to it. We also believe that a reformist democratic government and a traditional friend deserve the modest and prudent program of military assistance which is now in place. Guatemala still faces an active insurgency, only now the protagonist is a democratic ally instead of a military junta. We reiterate our desire to continue our moderate military assistance program.

IMET PROGRAM

SENATOR LEAHY: I want to discuss the IMET program. You are requesting funds to train in the United States, handfuls of military officers from dozens of countries in Africa, Latin America and Asia. The same justifications are given for many of these programs -- to "promote professionalism" and "increase appreciation of democratic values" in their armed forces, and to "counter Soviet influence."

Here are a few examples:

For Sao Tome, you are requesting $50,000 for IMET.

Togo,	$60,000.
Benin,	$75,000.
Burkina Faso,	$50,000. I wonder how many members of this subcommittee know where Burkina Faso is.
Burundi,	$140,000.
Ghana,	$225,000.
Gambia,	$60,000.
Gabon,	$150,000.
Lesotho,	$50,000.
Suriname	$50,000.

For Chile and Paraguay, the two worst dictatorships in the hemisphere, $50,000 and $150,000.

I could list many more. I know you can give me reasons why we need all these programs. My question has to do with priorities. Most of these programs train just a handful of military officers for a period of 6-9 months. None of these countries' security is threatened. None contain U.S. bases or is of particular strategic importance to the U.S. Every one of them has serious economic and political problems.

Why do we spend our scarce foreign aid dollars to train military officers in these obscure countries, when what they desperately need is trained civilian professionals -- teachers, engineers, doctors, economists, agronomists? Wouldn't that better serve the real needs of those countries, as well as your program goals -- respect for democracy and countering Soviet influence? And, equally important, why are these programs more important than job training for welfare mothers in our own country?

MR. DERWINSKI: The International Military Education and Training (IMET) program is a low-cost foreign policy instrument that provides a valuable channel of communication and influence with foreign military establishments worldwide. Since 1950, IMET and its predecessor program have trained in excess of 500,000 officers and enlisted personnel representing most countries in the world. In addition to military training, preliminary English language training, which is essential, contributes directly to increased rapport with the United States. In the long term, it also contributes to a greater understanding of U.S. society, particularly to our commitment to internationally recognized human rights.

In addition to teaching military skills and U.S. military doctrine, IMET provides many opportunities for future access to the civilian and military leadership of other countries. The program not only supplements several countries' indigenous training efforts, but frequently is the only major alternative to Soviet-sponsored programs.

The interest of the United States is to establish contact, and hopefully influence, officers of allied and other foreign governments. A significant segment of present and future military officers studying under the IMET program are likely to hold future positions of prominence in their countries. From FY 79-84, for example, over 1,540 IMET-trained personnel -- including approximately 1475 officers of general and flag rank -- held positions such as chiefs of military services, cabinet ministers, ambassadors, senior staff officers, field commanders, and commandants of senior professional military schools. In many of the countries you have mentioned, the military plays a significant role in training future civilian, as well as future military, leaders. The ties that are established through this military-to-military, interaction in the IMET program are of great value to our future relations with a country or region.

The more a country is distanced or isolated from direct exposure to U.S. society, institutions and ideals, the less influence the United States is likely to have. In particular, in nations like Chile and Paraguay, the military will be an important institution for the foreseeable future, regardless of the composition of the government. If we hope the influence the institution we must have the means to educate its members to an understanding of the United States. In cutting off all contact with those governments' military services, we jeopardize our future contact and influence with the eventual leadership of those governments. This includes our ability to encourage greater respect for internationally recognized human rights.

While I understand congressional concern for domestic programs of social assistance, the $56 million requested for the FY 88 IMET program would do relatively little to add to, or offset, the more than $100 billion already under consideration for such programs in the coming fiscal year. This modest sum of money is, however, perhaps the most cost effective method of promoting U.S. foreign policy and security goals in over a hundred countries worldwide.

ESF FOR AFRICA

SENATOR LEAHY: Last year the administration cut Africa's overall share of ESF from 7.5% in FY 86 to 4.5% in FY 87--a 44% cut of $130 million. Those funds were used to pay for other programs, mostly in Central America.

While there is no question that millions of people in Central American and elsewhere live in poverty, the average per capita income in Africa is far below anywhere else in the world. Many African governments are taking steps to avert disasters like the famine of the mid-1980's, which can lead to widespread suffering, political and economic instability and increased Soviet influence. I believe we should support their efforts in FY 1988.

Regrettably, the trend has been in the opposite direction. The share of total U.S. foreign aid going to sub-Saharan Africa has declined from 14% to less than 10% in the past three years. During that same period, U.S. bilateral aid to that region has fallen by $181 million.

In FY87, of the ESF the administration requested for all countries that were not earmarked by Congress, Africa's share was 22.6%, but the administration eventually provided Africa with only 13.3% of unearmarked ESF. If the administration had stayed with its own stated priorities and provided 22.6% of unearmarked ESF to Africa in FY87, it would have cut African ESF by $33 million from FY86, not $130 million.

What does the administration plan to do this year? Will it again cut Africa's share of ESF disproportionately? Or will it provide Africa with the share of ESF the administration requested for it in FY87, so that at least Africa's share will not continue to decrease?

MR. DERWINSKI: It is too soon to know exactly how much economic assistance will be available for Africa in FY88 or exactly what allocations will be made since the Congress has not yet completed its deliberations. While the ESF request for FY88 is less than FY87 ($100 million versus $163 million), this is more than made up for by our request for $500 million for the Development Fund in contrast to estimated FY87 DA of $374 million. If Congress approves the Development Fund, a substantial share of these monies will be utilized for programs traditionally supported from ESF. It should also be noted that the Administration has taken a number of major initiatives in the last several years to promote African development and reform. Among them are the President's Initiative to End Hunger, the development of the African Economic Policy Reform Program and the Initiative for Southern Africa.

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG TO MR. DERWINSKI

TURKISH MILITARY PRESENCE ON CYPRUS

SENATOR LAUTENBERG: Mr. Undersecretary, I am concerned about qualitative and quantitative improvements in the Turkish military forces on Cyprus, some of which have been made with U.S. military aid dollars. I believe that increased militarization will impair our efforts to negotiate a settlement on Cyprus.

U.S. officials now acknowledge that Turkey has increased the size of its occupation forces in CYprus by at least 5 to 10 percent over its previous strneght, and has been modernizing the armaments used by those troops.

Even more disturbing, some of the military equipment supplied to Turkish occupation troops on Cyprus is of U.S. origin, or has been bought with U.S. military assistance. Such a development violates U.S. law against the use of U.S. military aid to Turkey for areas outside of Turkey's responsibilities as a member of the NATO alliance.

The use of U.S. foreign aid to upgrade Turkis occupation forces on Cyprus is a violation of the intent of Congress. Turkish forces on Cyprus do not serve any NATO function; they only weaken the unity of our alliance by perpetuating the tragic division of the island.

I have cosponsored S. 630, a bill to prohibit the use on Cyprus of military equipment provided to Turkey by the United States. This bill has been incorporated into the FY88 Foreign Aid bill.

I understand the Administration admits that the Turks are upgrading their tanks on Cyprus using U.S. military assistance. Is that correct?

MR: DERWINSKI: The Turkish Army, as part of its modernization program, is upgrading tanks to the M48A5 model. Turkish forces on Cyprus are being equipped with the tank, like Turkish forces elsewhere. It is to be expected that Turkish forces deployed to, and rotated from, Cyprus are likely to be equipped similarly to other units of the Turkish armed forces.

SENATOR LAUTENBERG: Is this a proper use of our military assistance to Turkey, in your view? If not, why do you oppose legislation now in the Senate Foreign Relations Committee's FY 88 Authorization Bill prohibiting future U.S. military assistance from being transferred to Cyprus by Turkey? What specific steps has the State Department taken to make sure this misuse of U.S. military aid by Turkey does not recur?

MR. DERWINSKI: The Presidential Determination of September 26, 1978, taken under authority of the International Security Assistance Act of 1978, permitted resumption of full military cooperation with Turkey, eliminating conditioning of assistance on Turkish actions vis-a-vis Cyprus. At that time, regular units of the Turkish armed forces were deployed, as they are today, in Cyprus as well as on the territory of Turkey. Every year since 1978, we provided military assistance to Turkey for the use of its armed forces. We do not believe there has been any recent material change in circumstances regarding Turkish use of U.S. military assistance warranting a change in our approach to the provision of assistance. While we believe that improvements in equipment and increases in troop strength on the island by either side inevitably add to tensions and have repeatedly made our concerns known to both sides, we do not believe that the proposed legislation prohibiting use of equipment on Cyprus will promote progress towards a settlement. To the contrary, a settlement can only come about through a process of negotiation involving the parties to the Cyprus dispute who must address all the issues on a very difficult agenda. We believe that experience shows that efforts to isolate only one of these issues --in this case, troop presence and strength -- and to exert pressure on that issue, simply do not work.

SENATOR LAUTENBERG: Mr. Under Secretary, in the latest UN Secretary General report the Secretary General states that there is evidence of the growth of Turkish troops on Cyprus, and that he has raised this issue directly with the Turks. What specifically has our government done on this issue? Have we raised it with the Turks?

MR. DERWINSKI: Turkish mainland forces on Cyprus in recent years have fluctuated between 22,000-30,000 troops. Their present strength could be at the upper level of this range. We have expressed our concern to appropriate Turkish officials on this matter, as has the UN Secretary General. The Secretary General noted in his latest report that he was told the level of Turkish forces in Cyprus fluctuated because of the need to train newly arrived conscripts before the troops they are to replace are rotated back to Turkey.

EL SALVADOR: MILITARY AID

SENATOR LAUTENBERG: Compared to the extremely high levels of human rights abuses in the early 1980's, most reports indicate great improvement in El Salvador's human rights situation. The situation, however, still remains serious.

A 1986 America's Watch report which relied on statistics from the Roman Catholic Archdiocese of San Salvador's human rights office found 240 murders in 1985 by death squads, security forces, Civil Defense forces, and the Army.

More recently, there have been reports that suggest that army units are again resorting to brutal measures in an effort to contain growing pressures by leftist rebels and their supporters. Mr. Undersecretary, in light of these reports, how effective have Congressional conditions on our military aid been in improving human rights conditions?

In light of the recent upsurge in violence in El Salvador, do you believe it's time for conditions on our aid to be made tougher to encourage further improvement in the human rights situation?

MR. DERWINSKI: We do not believe further conditioning of assistance on human rights progress is either necessary or desirable at this time. The situation in El Salvador, with regard to the performance of Government forces, is dramatically better than it was at the time when assistance was conditioned on certification of human rights progress. Much of the progress can be attributed to President Duarte's own personal dedication to breaking up the death squads and bringing the armed forces under effective civilian control. Credit must also go to enlightened members of the armed forces high command who have carried through on extensive reforms. Both the Administration and Congress have been untiring in sending the message to the Government of El Salvador, as well as to private Salvadoran citizens on the extreme right, that the U.S. Government will not tolerate government-sanctioned human rights abuse.

Not suprisingly, in a combat situation, there have been several recent instances of reported abuse of captured guerrillas and guerrilla suspects by some army units in the field. The Government of El Salvador is committed to investigating and prosecuting these cases and continues to stress respect for human rights in its military training programs. Meanwhile, the communist guerrillas continue their indiscriminate use of pressure-detonated land mines, targeted assassinations of government officials and suspected collaborators, kidnappings and attacks on the economic infrastructure. In a recent sermon, the Auxiliary Bishop of San Salvador condemned an FMLN attack on a train which killed five civilian railroad workers. Despite condemnation from the United Nations and other organizations, the FMLN/FDR continues these policies. It is obviously not possible to condition aid to the elected government on improvement in the treatment of civilians by its sworn Marxist-Leninist enemies of the FMLN/FDR. It is lamentable that a number of U.S. organizations continue to provide material and moral support to the FMLN/FDR.

The "recent upsurge in violence" in the capital city has been the work of the guerrillas and their supporters on the extreme left, not the Salvadoran Government. Several of the recent allegations of attacks on guerrilla front organizations such as the COMADRES are almost certainly outright fabrications. The COMADRES incident occurred in the context of increasingly violent demonstrations by COMADRES and other guerrilla front groups. Earlier this summer these groups tried to foment unrest in San Salvador and provoke a repressive government response. Guerrilla documents captured in April 1987 indicate that they were acting under the specific orders of the General Command of the FMLN. The clear desire of these groups to provoke a violent reaction by, and otherwise discredit, President Duarte's government manifested itself in violent demonstations by the FMLN's labor fronts in July 1987 in which police officers were attacked with clubs and nail-studded boards, cars were burned, buses disabled and buildings vandalized. Security force response to these incidents was restrained and the increasing violence of the demonstrators caused a loss of support for their organizations.

Throughout the upsurge of FMLN/FDR-spawned violence, President Duarte refrained from reinstating a State of Exception which would have limited freedom of assembly and made control of violent demonstrators easier. Despite the continued intensity of FMLN/FDR attacks on the government and the economy, Salvadoran citizens enjoy full constitutional guarantees, including complete press freedom, under President Duarte.

This does not seem to us a record which should be denigrated through new conditions on assistance.

DUARTE ADMINISTRATION'S TERM

SENATOR LAUTENBERG: President Duarte's popularity has fallen in the face of a declining economy, a struggle within the President's own Christian Democratic Party (PDC), rumblings of discontent within the Army, and the apparent rising political strength of the right-wing National Republican Alliance (ARENA).

What are the chances of the Duarte administration finishing out its term until the next presidential elections of 1989?

MR. DERWINSKI: We fully expect President Duarte to finish his term in mid-1989 and to see a constitutional change of government at that time. It is not suprising that his and the ruling Christian Democratic Party's popularity would have fallen given the serious economic problems facing El Salvador. By comparison, President

Harry Truman's popularity ratings dropped approximately 50 percent in one year due to the slide in the U.S. economy after World War II.

The current intraparty disputes over policies and alignments are neither suprising nor alarming. Rather, we believe they demonstrate the workings of a healthy, fledgling democracy. The same may be said for any rising political strength the National Republican Alliance (ARENA) may be gaining through legitimate political activities. As for "rumblings of discontent" within the Army, there is certainly nothing new in that, nor is there any evidence that such rumblings are a threat to the civilian government.

"UNITED TO RECONSTRUCT" PROGRAM

SENATOR LAUTENBERG: The Salvadoran military has dedicated increasing efforts to a civic action program called United to Reconstruct, with the aim of changing the military's image as well as attacking some of the roots of the insurgency. Much of the program has been funded by the U.S. Agency for International Development (AID), which has described the assistance as humanitarian.

Critics charge the program's resettlement projects correspond with the Salvadoran Army's aim to control strategic parts of the countryside rather than with a program to help displaced persons return home. They claim that the program is part of the army's counterinsurgency plan. What is the rationale for U.S. funding of this program, specifically, for AID to be funding this program?

MR. DERWINSKI: In El Salvador the insurgency has been most damaging to social and physical infrastructure and has caused acute displacement of population from conflict zones. Defeating guerrilla insurgents requires military capability and a demonstration to the people by the legitimate government that it can provide security, as well as basic services and social programs. In 1983 the National Plan was conceived on the assumption that the communist guerrillas could not be defeated with military means alone. The Commission on Restoration of Areas (CONARA) was created to coordinate the response of civilian ministries to strengthen local authorities to help them restore essential public services. In 1985, President Duarte appointed a civilian protege to head CONARA. A.I.D. supports the National Plan in all 14 departments of the country through generated local currencies but provides no dollar-funded assistance to CONARA. "United to Reconstruct" is the cooperative theme adopted in late 1986 by the Salvadoran military, the civilian government, the Church and Salvadoran private groups for a special effort to restore public services in 14 priority former conflict zones. All the restoration projects are carried out by civilian agencies--not the Salvadoran military. The military's role is to provide security to protect "returnees" and civilian agency workers as they carry out small projects with local officials. These projects may include repair of the local school, the town hall, water and electric systems and other necessary public works.

A.I.D. has issued strict guidelines to all its Central American Missions stipulating that no A.I.D.-financed commodities, or jointly programmed local currencies, can ever be relinquished to the control of local military authorities. The single exception would be in the event of a national catastrophe such as a flood or earthquake, when military logistics capability may be needed to transport relief goods. In such a case, regulations governing the use of USG foreign disaster assistance would apply. In all cases, the USAID Mission is responsible for monitoring the end-use of USG-funded supplies.

In El Salvador, in areas of intense conflict, CONARA does not operate, but the Salvadoran military may carry out civic action such as food and clothing distribution and "medcap" clinics, using its own resources and staff. Jointly programmed local currencies remain under the exclusive control of the civilian Ministry of Planning and CONARA, and are audited by GOES and A.I.D.-financed private audit firms. In 1987, the local currency equivalent of $10.2 million was budgeted for CONARA, of which more than $9.0 million is for projects, including direct grants to mayors for quick-impact restoration activities under "United to Reconstruct".

QUESTIONS SUBMITTED BY SENATOR HARKIN TO MR. DERWINSKI

EL SALVADOR: SHERATON MURDERS

SENATOR HARKIN: In the past 2 appropriations bills, I have attached a rider setting aside $5 million in military aid to El Salvador pending progress in the AIFLD case. To date, there has been no progress -- Lt. Sibrian (sic), though imprisoned for his part in the 1986 kidnapping-for-hire case, has not been prosecuted for his alleged ordering the killing; and Capt. Avila remains free.

Where has that money gone? Has it returned to the Treasury, or been shifted to another country's account? Did my amendment have the effect of actually reducing El Salvador's military aid for each of the past two years, and has the reason for that reduction been made clear to the Salvadorans?

Has the FY1988 military aid request for Salvador ($118 million) been inflated to take into account another $5 million set aside in the Sheraton case?

MR. DERWINSKI: The $5 million of El Salvador's MAP funds set aside in FY 86 were reprogrammed to Honduras's and Guatemala's FMS trust funds in October 1986. Honduras received $1.45 million and Guatemala received $3.55 million. The $5 million set aside in FY 87 remains dedicated to El Salvador at this time.

Your amendment has had the effect of actually reducing El Salvador's military assistance for FY 86 and, most likely, for FY 87. The Government of El Salvador is aware of the reasons for the reductions.

The FY 88 military aid request for El Salvador is based on anticipated requirements of the Salvadoran Armed Forces, adjusted downward in accordance with government-wide budgetary restraints. It has not been inflated to take into account another $5 million set aside in the Sheraton case. A brief review of past requests will show that this is the lowest MAP request for El Salvador in several years. This is the case despite approximately $112 million in damage to military infrastructure in the capital caused by the October 10, 1986 earthquake.

Your statement that "there has been no progress" in the Sheraton case is unfounded. The two gunmen have been convicted and are in jail. Although the case against Lopez Sibrian was unfortunately dismissed on technical grounds in 1984 by the Supreme Court, he has been cashiered from the army and is now in jail for his role in the 1986 criminal kidnapping case. Under Salvadoran law there is no possibility of trying him again on the Sheraton case. The case against Captain Avila remains open, subject to lengthy delays occasioned by the ability under Salvadoran law of the defense to appeal every prosecution move. On May 29, the Second Criminal Chamber of the Supreme Court rejected the defense's appeal of Judge Palacios's (Fifth Criminal Court) decision to reopen the case, but the defense immediately filed another appeal claiming that the constitutional rights of Avila had been violated. The Constitutional Chamber of the Supreme Court is now considering this appeal. If, as expected, the ruling goes against the defense, the case will be returned to the Fifth Criminal court. As you know, the U.S. Government is committed to seeing justice done in this case.

So, too, is the Government of El Salvador. You should realize that for the past several years the role of the Salvadoran military in this case has been peripheral at best. Captain Avila has is on leave without pay and has no hope of ever being promoted. The civilian government has demonstrated repeatedly by its actions its desire to prosecute the case to a successful conclusion. These actions have been slowed and at times obstructed by a judicial system that is, as you know, inefficient and subject to pressure. We have seen no indication whatsoever that that pressure emanates from the military. Rather, the reason lies in the close-knit nature of Salvadoran society, where powerful families and their friends retain the ability to influence the judicial system. For example, one of Avila's uncles is a Supreme Court justice.

Given this reality, the "Harkin Amendments" in FY 1986 and FY 1987 have had no effect on the prosecution of this case, nor do we believe additional conditioning of military assistance have any effect. We have seen time and again that the Salvadoran judicial system moves at its own pace. There is no evidence that the Salvadoran military has intervened in this case to prevent it from moving forward. Ironically, the "Harkin Amendment" puts the U.S. Government in the position of seeming to promote military interference in a judicial system that we want to see become truly independent of any outside pressures by making military assistance contingent upon action in a civilian judicial process. Further, believing that the case will move forward if only the military permits it is a serious misreading of the situation in El Salvador at this time. We believe that withholding $5 million in military assistance simply has the effect of reducing the ability of the military to combat the Marxist-Leninist guerrillas trying to overthrow the democratically government.

The solution to the problem lies in a long-term overhaul and reform of the judicial system. Accepted practice and long-established attitudes cannot be changed overnight and certainly cannot be changed by withholding the assistance necessary to achieve the goals we desire in El Salvador. The U.S. Government is addressing this need through a comprehensive Judicial Reform package. Although the concrete results of that program are few so far, the Government of El Salvador and the legal community in that country are clearly committed to reforming the judicial system. Therein lies the best hope for seeing justice done, not only in the Sheraton case, but in all legal matters arising in Salvadoran society.

US SUPPORT FOR EL SALVADOR

SENATOR HARKIN: Since 1981, the U.S. has sent El Salvador nearly $800 million in military aid alone. Currently the total aid package, including economic support funds, averages more than $400 million a year. Despite this aid, I hear discouraging news from El Salvador. That President Duarte has lost the support of his base -- the labor movement. That the government, under Christian Democratic control, has been charged with corruption. That, according to Chief of Staff General Blandon, the Government has been losing the political war. That incidents such as the April 1 raid at El Paraiso, which resulted in the death of Sgt Gregory Fronius, still occur, demonstrating FMLN capability to wage quick strikes against significant military targets.

How long do you see the U.S. supporting El Salvador and at what levels? What is your assessment of the military capabilities and effectiveness of the Salvadoran military? For how long will the war be waged? What is the U.S. view on the ultimate resolution of this conflict? Will we suffer through a military resolution of the conflict? A negotiated resolution?

MR. DERWINSKI: U.S. support for the Government of El Salvador is based on the protection of our national security interests, i.e., preventing the establishment in this hemisphere of another Marxist-Leninist dictatorship allied with Cuba and the Soviet Union and hostile to the U.S. To achieve this overarching goal, we are working toward several objectives in El Salvador:

-- Helping the democratic government defend itself against the Marxist-Leninist, anti-democratic insurgency.

-- Supporting the consolidation of constitutional democratic processes.

-- Foreclosing military victory to the insurgents in order to bring them into the democratic process.

-- Promoting political, social, and economic progress and respect for human rights.

— Maintaining production, employment, and supporting economic reform.

El Salvador is a valued U.S. ally. It is not possible to say that at some point in the future the U.S. will stop supporting El Salvador, as your question implies. If the objectives noted above continue to be achieved -- and they have been partially achieved at this point -- our support for a democratic El Salvador is open-ended, just as our support for and friendship with other democracies in the developing or developed world is open-ended.

As to the question of what levels of assistance will be required to support the achievement of our goals in El Salvador, that too is difficult to predict, subject to a number of variables. For example, should the Marxist-Leninist insurgency be split, weakened, or destroyed, undoubtedly our levels of assistance would be adjusted downward as the military threat to the democratic government decreased.

Nevertheless, our best guess is that -- barring unforeseen changes -- the insurgents will retain the capability to inflict damage on the economy and engage in terrorism in El Salvador for the next few years. Consequently, levels of U.S. assistance necessary to achieve the objectives above will most likely be commensurate to those levels that have obtained for the last several years.

The military capabilities and effectiveness of the Salvadoran military (ESAF) have increased dramatically over the past several years. One need only remember the events of 1983, when the guerrillas -- then at the peak of their strength -- were able to meet and defeat ESAF battalion-sized units with some regularity. U.S. assistance and training were instrumental in helping the ESAF overcome the guerrilla threat to the point where now -- four years later -- the guerrillas have no hope of winning a military victory.

The ESAF has improved its capabilities in many areas: intelligence, mobility, morale, small unit operations, special operations, coordination between units, air-ground coordination, a better and more effective Air Force and Navy.

The ESAF gained the strategic initiative over the guerrillas in 1985 and has held it ever since, although on the tactical level the guerrillas often have the initiative. But that is inherent in a guerrilla war, when the guerrillas determine the object of their next attack and the defending forces are often obliged to react. For this reason, the guerrillas are occasionally able to mount successful attacks against significant ESAF targets, as happened at the National Training Center in 1985, San Miguel in 1986, and El Paraiso in 1987.

It would be incorrect, however, to draw the conclusion that, since the guerrillas can at times successfully ambush ESAF troops, carry out effective suprise attacks, or inflict heavy casualties through the indiscriminate use of land mines, little progress has been made. That is simply not the case. We have seen no evidence in the past three years that the FMLN is willing or able to take on the ESAF in the kind of head to head confrontations with which they had good success in the early 1980s.

We are unable to predict how long the war will last. Again, there are a number of variables that could lead to a shortening of the conflict, particularly if the guerrillas accept the recently signed Guatemala Peace Agreement and begin to incorporate themselves into the democratic process. That prospect is unlikely, however. The leaders of the armed guerrilla forces are Marxist-Leninists who have been engaged in armed conflict against the government for a decade or more. For them, the war is a way of life. FMLN leaders have repeatedly declared that they will never lay down their arms until they take power. As long as they continue their fight, therefore, the prognosis for a quick end to the war is not good. Nevertheless, if the Government of El Salvador continues to make progress in institutionalizing genuine democratic government and reducing human rights abuses, we expect that guerrilla strength -- now at some 6,000-8,000 armed combatants from a high of 11,000-13,000 in 1983 -- will continue to erode and the guerrillas will be increasingly marginalized as terrorist and criminal elements operating principally from remote areas in the north and east of the country.

The U.S. Government and the Government of El Salvador have said time and again that a conflict of this kind -- springing as it does from longstanding repression and inequality -- cannot be solved by military means alone. The policy of the Government of El Salvador is to institutionalize democracy, eliminate human rights abuses, and try to distribute the political, economic, and social benefits of an open democratic society to all Salvadorans.

It is essential to note that the situation in El Salvador has changed dramatically since 1979-1980, when the insurgency began in earnest. President Duarte has called for the guerrillas to reincorporate themselves into society and peacefully compete for power under the 1983 Constitution. The guerrillas, on the other hand, despite little popular support (a 1985 exit poll conducted by the SIN network found that 54 percent of the respondents favored the "elimination" of the guerrillas, 40 percent favored their participation in elections -- exactly what the government is offering -- and 6 percent favored a guerrilla victory), continue to demand immediate power-sharing, maintaining their armed forces, and elections at an undetermined point in the future. It is not reasonable to expect that the constitutional government -- having taken power as the result of a series of demonstrably free elections in which the majority of people voted freely -- will commit suicide. Neither is it reasonable to expect that the guerrillas will simply surrender. If, however, they truly believed in democratic government (which they clearly do not) reincorporating themselves into a functioning democratic process would not constitute surrender. Rather it would signify that the goals for which they fought had been at least partially achieved; that the time for armed conflict had passed and they could compete for power via elections. But we have seen no disposition by the Marxist-Leninist guerrillas to adopt such an attitude. Consequently, we can expect that the Joaquin Villaloboses and Shafik Handals will continue fighting until the bitter end, steadily losing what little is left of their popular support.

KIDNAPPING-FOR-HIRE CASE

SENATOR HARKIN: KIDNAPPING-FOR-HIRE CASE: When the kidnapping for hire case broke last summer, both the Salvadoran Government and the U.S. Embassy cited the case as an example of progress in instituting the rule of law in El Salvador. Since them, it is my understanding that then Lt. Col. Mauricio Staben, who had been cited by those involved in the case, has been exonerated and released, and the entire case has been stalled.

What is the current status of the kidnapping-for-hire case? Where is Lt. Sibrian now? What is the status of the case against the other suspects, Col. Joaquin Zacapa and his cousin, Carlos Zacapa, and Maj. Jose Alfredo Jimenez? It is my understanding that Mr. Staben has been promoted to the position of full Colonel since the case broke. Is that correct? Has Colonel Staben ever been required to give a statement in response to allegations of his involvement? If not, why not?

MR. DERWINSKI: Senator Harkin has already received a classified briefing on this case that should address some of your questions. This case is by no means stalled. Several defense motions challenging the validity of the charges and the constitutionality of the statute under which it is being processed are under review in the Supreme Court.

Lt. Lopez Sibrian and Maj. Jimenez are in custody. The Zacapas are fugitives outside El Salvador.

Col. Staben, was released for insufficient evidence (as has been the case with many, if not most of those detained on suspicion of guerrilla activities during the past two years. He has been promoted to full Colonel, which is normal practice in El Salvador, where members of the same military school graduating class are promoted en masse after attaining the required time in grade.

STATUS OF INVESTIGATIONS

SENATOR HARKIN: It is my understanding that Col Staben commands the U.S.-trained ARCE battalion, which operates in the San Miguel department. Last month, it was reported that 5 members of a peasant union were killed along the Salvadoran-Honduran border in San Miguel. The Catholic Church in El Salvador charges that the 5 were killed by members of the ARCE battalion.

What is the status of the investigation into these allegations? What information can you, or our Embassy provide me with regard to this case?

Mr Derwinski: This incident apparently occurred on May 21. The parents of the victims said their sons, six in all, were en route home from carrying supplies for the guerrillas on that date when they were intercepted by ESAF troops, held for one day, and then summarily executed, after which their bodies were thrown into a well. The Arce Battalion reported that it killed five guerrillas in combat in the same area on May 21, although it is not known at this time if the two incidents were in fact the same. The ESAF also reported that it had information indicating that the men had been killed by the guerrillas for refusing to cooperate with them and then told the parents that the army had committed the atrocity. We are currently unable to verify the veracity of that claim. It is clear, however, that the victims had been assisting the guerrillas in some capacity, although they may have been forcibly recruited - itself a violation of the Geneva Conventions.

The Special Investigative Unit (SIU) of the Commission for Investigations, an organization subordinate to President Duarte that investigates cases of national importance, received notification on June 25 to begin work on the case. The incident took place in an area of heavy conflict, and an SIU team would require strong military security to secure the area while it investigates.

Meanwhile, the families of the deceased men filed a complaint with the Judge of First Instance at Ciudad Barrios, who has jurisdiction over the area. In response, the Judge ordered that the well be opened, but, lacking the resources to do so, required that the families arrange for the opening. This was done, and five bodies were removed from the well. We have not yet seen an official report on the results of the examination.

The U.S. Government has expressed its concern on this case to the highest levels of the Government of El Salvador and will continue to do so. If the involvement of ESAF troops is confirmed, those troops should be remanded to the courts for appropriate legal action.

Although any abuse of this kind is reprehensible, it is important to distinguish between the actions of soldiers in combat situations and the policies of the Government of El Salvador. It is the clearly defined policy of President Duarte and the highest leadership of the Armed Forces to do their utmost to eliminate human rights abuses committed by the Armed Forces. The International Committee of the Red Cross, the governmental Human Rights Commission, and the Salvadoran Catholic Church are all cooperating with the Armed Forces to give regular human rights training to officers and regular troops. Since late 1986, most members of the Security Forces have received a 48 hour course in human rights, taught by the organizations mentioned above. Since 1979, hundreds of Armed Forces or Security Force personnel accused of abuse of authority or physical mistreatment of civilians have been relieved of duty and remanded to the civilian courts for appropriate legal action. Most recently, an army lieutenant alleged to have overseen the murder of three civilians in a personal dispute has been identified, thrown out of the army, remanded to the civilian courts, and charged with murder. In another instance, widely portrayed by sympathizers of the FMLN/FDR as an ESAF attack on civilians, two former security and military force members, as well as three other civilians, alleged to have attacked and murdered several members of a cooperative in Zacotecaluca, were apprehended within hours by troops of the local army garrison and turned over to the courts for trial.

Significantly, although the Armed Forces is doing its best to eliminate human rights abuses committed by its personnel, the communist guerrillas seem to be doing the opposite. Abuses committed by the guerrillas -- ranging from murder and kidnapping to robbery and extortion -- have been increasing steadily since 1985.

record and they could be charged should the court see fit to do so. For his part, Gonzalez Araujo has always claimed that what happened at Las Hojas was a military operation in which subversives were killed. The U.S. Government does not share his view, and will continue to monitor the case and press for a satisfactory resolution.

ALVAREZ CONTRACT

SENATOR HARKIN: Regarding Honduras, I read in a May 10 Washington Post piece that former general Gustavo Alvarez Martinez, a controversial U.S. ally who was ousted as head of the Honduran armed forces in early 1984, received more than $50,000 in Defense Department consulting work during the past two years. I have written the Defense Department a number of questions in a May 22 letter, which has not yet been answered.

Was the State Department consulted before these contracts were awarded to Alvarez? Are you aware of the content of the work done by Alvarez? Could you provide me with additional information regarding the Alvarez contract? Please provide me with copies of the work done by Mr. Alvarez while he was under contract to the Defense Department.

MR. DERWINSKI: I understand that Undersecretary of Defense Ikle replied to your letter on July 6. The Department of State was consulted in connection with the employment of General Alvarez by a Defense contractor. The State Department, however, was not in a position to approve or disapprove his employment. Rather, we provided non-binding advice on the foreign policy implications of the proposed relationship between Alvarez and a DOD contractor. The Department communicated informally to the Department of Defense our judgment that General Alvarez's employment by the DOD contractor would not have a negative effect on the United States' overall relationship with Honduras. We are not aware of the substance of General Alvarez's work for the DOD contractor, nor can we provide you with his work product or details of his contract.

QUESTIONS SUBMITTED BY SENATOR KASTEN TO MR. DERWINSKI

FMS DEBT RELIEF EFFORTS

SENATOR KASTEN: What is the status of the Administration's efforts to relieve FMS debt burdens?

MR. DERWINSKI: Our proposal to restructure FMS loans either through prepayment at par or partial capitalization of interest still remains open to interested countries. Over the past seven months, we consulted with sixteen governments on how they might benefit from restructuring. The proposals drew a mixed response from FMS debtors. While most were appreciative of our unilateral effort to help ease their FMS debt servicing burden, many expressed the view that the U.S. had not gone far enough. We have told these governments that legal and budgetary constraints prevent us from making any substantive changes to our proposal. Despite the disappointment of some, we are continuing to discuss the possibility of restructuring with a number of countries, including Egypt, Turkey, El Salvador, Jordan, Thailand, Korea and Spain.

SENATOR KASTEN: Which countries have indicated that they will take advantage of the Administration's FMS debt relief plan?

MR. DERWINSKI: Several countries have expressed interest in participating in our offer to restructure FMS loans under the two options. Oman has confirmed that it intends to prepay its loans at par on October 1, 1987. Spain and Thailand initially indicated an interest in prepayment. They are concerned, however, about the technical default requirement under this option and are now uncertain whether they can accept our offer. Korea would like to prepay its loans but needs to resolve certain legal problems associated with this transaction before it can. Egypt and Israel would also like to prepay if funds or guarantees can be found for this purpose. (The U.S. proposal does not permit the use of any U.S. funds or guarantees.) Turkey, El Salvador, Somalia and Jordan have discussed the possibility of restructuring their FMS loans under the partial interest capitalization option. They have yet to reach a final decision on this matter.

SENATOR KASTEN: In view of the fact that both Israel and Egypt, the two principal countries which the Administration's FMS debt proposal sought to help, have indicated rejection of that proposal -- are you working on any alternative plans?

MR. DERWINSKI: The Egyptian and Israeli Governments indicated to us that they had problems with our FMS loan restructuring proposals. However, neither has of yet given us a formal reply rejecting participation. Egyptian authorities, in particular, are concerned about the large increase that would occur in the nominal value of FMS payments under the interest capitalization option. (This is due to the accrual of interest on amounts capitalized over a 20-year period.) We understand that both governments are still actively considering the prepayment-at-par option. Given the legal and budgetary constraints which we face, we believe that the two loan restructuring options provide a good approach to a difficult problem. Both offer the potential of significant relief on FMS debt service. Since the legal and budgetary constraints remain unchanged, we are not in a position to consider revising the options in any significant way.

MAXIMIZING SECURITY ASSISTANCE RESOURCES

SENATOR KASTEN: It is clear that we are going to have reduced resources available for the security assistance program this year. Does the Department have any recommendations to make to this committee about how we might structure our legislation so as to maximize those resources, perhaps along some of the lines that this committee proposed last year?

MR. DERWINSKI: As I made clear in my prepared statement, the cuts in the security assistance budget over the past three years have reduced these programs well below the level of prudence. Therefore, I would hope that the committee would do everything possible to assure that these programs stop suffering cuts all out of proportion to their share of the federal budget.

That said, many of the suggestions this committee proposed last year would certainly leverage the money appropriated for security assistance. The authority to make FMS loans on concessional terms was clearly helpful. The increase of available MAP funds was also helpful. To the extent our security assistance program can be a grant program given amounts of budget authority would go further in terms of practical assistance to our friends. We would also support any efforts to convert old unexpended FMS money to FMS forgiven credits. All these ideas would help maximize our resources. However, none of them alone or in combination would overcome the basic problem the security assistance program faces -- the lack of resources. That problem can only be overcome with appropriations that are adequate to support the large role the United States must play in the world.

EL SALVADOR: ECONOMIC SITUATION

SENATOR KASTEN: Mr. Derwinski, I have several questions for you regarding the economic situation in El Salvador.

What role does the private sector play in the formulation of economic policy under President Duarte?

MR DERWINSKI: President Duarte's economic policy, which was well known to the Salvadoran electorate when they voted him into office, leans heavily toward state intervention. However, because of its importance in the economy of El Salvador, the private sector does play a consultative role in the formulation of economic policy under President Duarte. Because of the history of antagonism between the private sector and President Duarte, that role has often been adversarial and confrontational.

SENATOR KASTEN: Has President Duarte consulted with and considered the views of the private sector in formulating his economic plans?

MR. DERWINSKI: President Duarte, primarily through his senior economic ministers, has consulted with private sector leaders from time to time and has considered their views in formulating his economic plans. More often than not, however, he relies ultimately on his own views or those of his close advisors in the Christian Democratic Party.

SENATOR KASTEN: Has Duarte instituted policies which promote growth, open barriers to imports, and free the state of its hold on private sector activities -- policies which the Reagan Administration is demanding in other Third World countries that receive A.I.D. programs or have debts to international banking institutions?

MR. DERWINSKI: President Duarte, throughout his administration, has moved to reduce government-owned enterprises and to slowly open up some government monopolies to private sector competition. For example, the Minister of Economy on July 22, 1987, announced plans for the government to sell off 54 state-owned enterprises to the private sector. The latest economic plan also provides incentives for non-traditional exports and reduces subsidies to para-statal utilities. However, President Duarte believes in a statist approach to economic management. He believes the private sector, at least the large, organized, and conservative portion of the private sector, is unalterably opposed to him, his party, and the social changes he is attempting to bring about in El Salvador. Therefore, rather than enhance the economic power of the private sector, President Duarte prefers a sectoral approach to managing the economy, one in which the government is the major actor. President Duarte is concerned that macroeconomic adjustments which cause short-term austerity during a period of relatively high inflation and unemployment would threaten the future of democracy in El Salvador.

SENATOR KASTEN: What percentage of U.S. economic aid to El Salvador is directed toward activities which will enhance the private sector growth and employment?

MR. DERWINSKI: A.I.D. is assisting the private sector through apolitical institutions like the Salvadoran Foundation for Economic and Social Development (FUSADES) to promote better public-private sector relations and to develop mechanisms for promoting investment and export in non-traditional commodities and products.

A.I.D., FUSADES and Salvadoran business associations are actively promoting private investment in non-traditional exports, agricultural diversification and small and micro-enterprise. A.I.D. also supports the Salvadoran Junior Achievement program.

In FY 1987, including supplemental funds, approximately 74 percent of U.S. economic assistance activities budgeted for El Salvador were in support of private sector initiatives.

A.I.D. private sector support includes (1) a strong policy dialogue aimed at creating a policy structure that will stimulate private sector investment and production, (2) balance of payments support of $187 million in 1987 to allow the private sector to obtain critical imports (3) private sector investment and production credit lines from local currency generations, (4) a $75 million TCIP program, and (5) training and technical assistance for small and micro-enterprise.

QUESTIONS SUBMITTED BY SENATOR KASTEN TO GENERAL GAST

SENATOR KASTEN: General Gast, I understand that the annual discussions on defense related matters, which are normally held between the United States and Israel, have been cancelled or postponed again, and in addition, I am told that several different ongoing discussions between the United States and Israel have been postponed with the reason given that until Israel decides what to do on the LAVI, there is no further point in discussing the overall situation or individual smaller agreements. To me, this looks like simple strongarming by the Pentagon to try to get the Israelis to bend to its viewpoint on the LAVI.

Why have you postponed or cancelled the larger discussions as well as individual ongoing discussions with Israel?

GENERAL GAST. It has been and continues to be the U.S. Government's position that the decision to terminate the LAVI is an Israeli decision. Whatever they decide, however, will have a major impact on the details of their security assistance program in the coming year, particularly with respect to whether other high priority programs get funded, postponed, or cancelled. It is my understanding that we and the Israelis are in agreement that it would be better to wait until the future of the LAVI program is clarified before convening the next annual meeting of the Joint Security Assistance Planning Group.

SENATOR KASTEN: Last year the Pentagon pushed very hard in order to secure $10 million in 506 "drawdown" authority for so-called emergencies in the Philippines. In fact, I don't believe that all of that money has yet been spent. Have you had a chance to look into this matter, and do you believe that this was a proper usage of 506 drawdown authority -- if your answer is yes, how can you justify that given the fact that all of the money has still not yet been spent?

GEN GAST: The 506(a) "drawdown" authority has all been spent as follows:

PHILIPPINES PD 86-13

ITEM	QTY	$VALUE
Ambulances	54	527,597
Medical Supplies		5,974,766
Cots, blankets, pillows & cases		1,284,460
Medical training		200,000
Transportation costs		2,013,177
TOTAL		10,000,000

Last year, as a result of a U.S. Army medical survey conducted at the request of the Armed Forces of the Philippines (AFP) and other reporting available to us, President Reagan determined that a medical emergency existed in the Philippines Armed Forces. He authorized the Department of Defense to make available to the Philippines not more than $10 million in urgently required medical supplies and equipment from U.S. military stocks. Since that Presidential Determination, we have delivered lifesaving defense goods and services valued at $10.0 million as shown above. Regrettably, some aspects of this humanitarian program are not well understood. First, the Department of Defense was not authorized to purchase new medical supplies and equipment for the Philippines, but only to drawdown its own existing stocks and to do so in a manner which would not jeopardize medical care and combat readiness of the U.S. Armed Forces. Second, the cost of transporting the medical supplies and equipment had to be included in the overall $10 million limit. This argued for use of slower, but less expensive sealift rather than high cost airlift transportation for some items. Third, the AFP's chronic shortage of medical materiel meant that a sudden infusion of supplies and equipment threatened to overtax a distribution system unaccustomed to a heavy volume of medical goods. Thus, it became important to space deliveries to insure appropriate distribution, and we did so in coordination with the AFP.

SENATOR KASTEN: Gen. Gast, what is your view of the current military situation in El Salvador?

GENERAL GAST: The military situation is at this time generally favorable. As your are aware, the initiation of major security assistance programs in 1984 has resulted in improved capabilities within the El Salvadoran Armed Forces (ESAF).

This improvement in capability has denied the guerrillas free use of the rural areas forcing them to change their strategy. The new guerrilla strategy is to concentrate their efforts in urban areas. The recent increases in urban violence, strikes, and demonstrations are examples of this new strategy.

In order for the ESAF to maintain the momentum they have gained, they must continue to put pressure on the guerrillas in the rural areas and the ESAF public security elements must continue to contain urban terrorism in a professional and humane manner. The ability of the public security forces to acomplish this mission will be dependent on continued US training and support.

An effective response to the change in guerrilla strategy and improvement in the economic and social sectors will be the key factors in the ultimate resolution of the conflict.

Senator Kasten. What is the current military situation in the Philippines?

General Gast. Despite the dramatic developments in the Philippines over the past 18 months, the military situation has not changed significantly. The balance of opposing forces--some 17,000 to 24,000 New People's Army (NPA) regular guerrillas versus the roughly 150,000-strong Armed Forces of the Philippines (AFP)--belies the actual nature and status of the conflict in the countryside. The NPA is not interested in defeating the AFP, nor, at least presently, in acquiring a conventional capability to combat the AFP directly. Neither does the NPA seek to capture and hold territory. Its operations against the AFP and civilian targets are designed to harass and demoralize, acquire weapons and supplies, and demonstrate strength to the populace.

NPA regulars initiate operations on their own terms, which normally include the element of surprise, superior force, a poorly defended target and a site which affords the guerrillas easy withdrawal or escape. Typical targets include small military patrols or isolated detachments, or rural police stations or town halls. In general, the NPA avoids confrontations with superior AFP forces, and has only rarely chosen to stand and fight when outnumbered. NPA operations are normally well-planned--often reflecting superior intelligence on locations and movements of government troops--and executed. NPA regulars routinely operate in small groups, roughly squad size, for non-military activity such as tax collection. These small units are combined for major raids and attacks and disperse immediately afterward. Regular guerrillas also utilize local irregular troops for combat support missions. In general, NPA morale appears high, and there have been relatively few surrenders to the government.

The nature of the NPA's guerrilla tactics makes it an elusive target for the AFP. Base camps and training facilities are temporary and crude, and the insurgents are lightly equipped and highly mobile. AFP multibattalion sweep operations in heavily NPA-occupied areas have been ineffective--the insurgents usually vacate the area before government troops arrive.

An important difference between the NPA and AFP is that NPA operations are closely linked to the political efforts of the Communist Party, and vary in intensity depending on local conditions. In general, the Communist Party of the Philippines (CPP) seeks to lay a careful political groundwork before regular NPA operations begin. The politicized populace then becomes an integral factor in NPA success as the source of intelligence, funds, food and other material support, refuge, and future NPA recruits. This coupling of political and military efforts has not been matched on the government side, and the AFP must often operate as the sole government counterinsurgency actor. However, the AFP often bears de facto responsibility for countering not only the military threat, but also the political program of the CPP--the political organizing of communities, infiltration of local governments, tax collection, etc.

Although some improvements have been made in the AFP's posture in terms of greater attention to the operational needs of troops in the field, the military has not made significant, or even visible, gains against the NPA. Nor is it well-suited to combat the more important political component of the insurgent struggle. Counterinsurgency efforts in the field tend to be ad hoc and personality dependent, and in some areas are undertaken in the face of an adversarial or lackadaisical local civil government apparatus.

The level of countrywide insurgent-related violence, which decreased in the months following the revolution, has gradually risen since the end of the cease-fire in February of this year. Reliable figures are unavailable, but it appears that the insurgents still initiate the majority of the clashes with the AFP. The NPA has also stepped up military operations--namely, assassinations of police and soldiers--in Manila and Cebu City. Moreover, the insurgents are gradually increasing their demolitions skills, and many of the incidents that have inflicted high numbers of AFP casualties have been the result of NPA-manufactured landmines.

In the southern Philippines, an outbreak of hostilities with Muslim rebels remains possible depending on the outcome of government-rebel negotiations on Muslim autonomy. Thus far, only sporadic, small-scale Muslim rebel activity has occurred, but a full-scale eruption of violence by the rebels would necessitate AFP redeployments and would seriously strain the AFP's already limited capabilities.

SUBCOMMITTEE RECESS

Senator MIKULSKI. Having said that, the subcommittee will stand in recess until July 28, when we will receive testimony on the Administration's export financing programs.

[Whereupon, at 12:15 p.m., Tuesday, July 14, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, July 28, 1987.]

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